

This Business is run
on a Loss basis and
not a profit.

I picked a lemon in the
garden at home where they say
only peaches grow.

Roses are Red,
Violets are Blue,
lemons a sour,
and so are you.

Good until June 1934
"Joe Anderson"
34.

Eleanor
 Dzierżewski
 Definitions
 & Explanations
 Bernmar
 300 pages
 72.5 - 71.50
 50

chapters
 15

Joe Anderson
 30 days has sept

30 DAYS HAS SEPT., APR., JUNE AND NOV.
 ALL THE REST HAVE 31
 EXCEPT FEB., WHICH
 IN ITS LEAP YEAR HAS 29
 AND 28 IN ITS PRIME.

Bernmar

$$\begin{array}{r} 27 \\ 43 \\ \hline \end{array}$$

ASSETS INCLUDE ANY PROPERTY NEEDED TO CARRY ON
THE OPERATION OF A BUSINESS.

LIABILITIES ARE THE OBLIGATIONS OF A BUSINESS.

LIABILITIES INCURRED

A. ADDITIONAL INVESTMENT

B. BUYING ON CREDIT

C. BORROWING

CUSTOMER:- ONE TO WHOM THE BUSINESS SELLS ON
CREDIT.

CREDITOR:- ONE FROM WHOM THE BUSINESS ON CREDIT

NOTES REC.

20th Century Bookkeeping and Accounting

SIXTEENTH EDITION

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CHICAGO

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SAN FRANCISCO

Barrow his book
mine doesn't go
for enough

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PREFACE

This text has been written to give students an understanding of bookkeeping principles and procedures. The discussions and illustrations develop the subject from the point of view of the beginner. Consideration is given both to the *reason* for bookkeeping procedure and to the *method* of applying it.

Fundamental accounting principles are developed as a result of *reason* and not *rules*. When the student understands the reason for a process, he will not need to memorize formulated rules. He may formulate rules for his own guidance, but they will be based on reason.

Arbitrary rules such as "Debit values received and credit values parted with" may be easy to apply in certain cases but in others they can not be applied readily and may lead to wrong conclusions. Only an understanding of principles makes it possible for a student to advance satisfactorily in bookkeeping knowledge.

The equation " $\text{Assets} = \text{Proprietorship}$ " is used as a basis for the beginning lessons. When the student learns the method of recording increases and decreases in assets so as to show their effect on assets and proprietorship, liabilities are introduced. Thereafter the equation " $\text{Assets} = \text{Liabilities} + \text{Proprietorship}$ " is used as a basis for recording transactions.

Only one phase of bookkeeping is presented at a time, thus permitting the student to learn as he advances. The discussion in connection with the development of each phase of the subject relates to practical transactions with which the student is familiar. Business conditions are not changed to fit the theory but the theory is made to fit business conditions.

No attempt is made in this text to draw a distinct line between bookkeeping and accounting. There may be a distinction between the work of the bookkeeper and that of the accountant but the principles applied by each are the same. The bookkeeper records the transactions so that the accountant may correctly interpret their effect. Both the bookkeeper and the accountant must understand the effect of each transaction on the property and property rights of the business.

Throughout the text the lesson plan includes

- (1) Brief, clear discussions of bookkeeping methods and principles.
- (2) Accurate illustrations showing the application of the discussions.
- (3) Short exercises which enable the student to apply the principles and methods to business problems.

The short exercises are supplemented by practice sets. The purpose of these practice sets is to summarize and correlate the various phases of bookkeeping. Furthermore, through the completion of a practice set the student can measure his understanding of the subject and the instructor can know that the student understands it.

The transactions for the practice sets are provided in two forms.

- (1) Memoranda of transactions.
- (2) Business papers.

The practice sets in which the student makes his record from memoranda of the transactions are a part of the text. The practice sets in which the student makes his record from business papers are separate from the text because it is not practical to print all the business papers in the text.

If practice sets containing business papers are to be worth while, the transactions must be based on the papers. The papers must not be used simply as supplementary records but as the authority for the bookkeeping entries. For this reason, the text does not provide transactions for the sets in which business papers are used, as a pupil might then complete the transactions from the memoranda and thus make the vouchers useless. If the instructor desires to use the separate sets without business papers, printed memoranda of transactions can be secured.

The federal government is interested in accounting records because of the tax assessed on the net income of a business. It has been necessary for the Treasury Department to rule on the effect of certain transactions on net profit. These rulings are followed in both the text discussion and the practice sets. This qualifies the student to record transactions so as to provide information which will conform to the Treasury ruling.

The procedures in this text are based on the methods used by good accountants. They do not reflect theoretical opinions but rather practical experience. The accounting terms and account titles are those used in modern accounting practice. Other terminology may seem preferable to some, but the student will come in contact with actual business conditions and will need to understand the terms commonly used.

The authors wish to thank the many teachers, bookkeepers, and accountants who have so kindly offered suggestions for presenting the information in this text. Bookkeepers and accountants were consulted to insure information consistent with modern accounting practice. Teachers of bookkeeping were consulted to insure a presentation most satisfactory to the student and to the teacher.

THE AUTHORS.

no. 109
Set. - Edi.
Practice

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TO THE STUDENT

You can find no better entrance to the business world than through a knowledge of bookkeeping. The first question asked of you by a business man when you apply for a position is "What can you do?" When you reply, "I can keep your books or perform any clerical work which relates to bookkeeping," you are giving a definite answer to this important question.

The answer suggested has a meaning to the owner of a business. It is necessary that he maintain a record of the transactions completed in the operation of his business, if he is to have available the information he needs regarding the affairs of the business. The business man is not only interested in this information himself but others are interested in it. When he wishes to borrow money from the bank or purchase merchandise on credit, he will be required to supply the banker or creditor with certain information. This and much other valuable information can be obtained only through the bookkeeping records.

If you enter business as a bookkeeper or as an assistant to a bookkeeper, you will find that you have many opportunities for promotion. You may advance in the bookkeeping or accounting field. Large concerns have highly organized bookkeeping departments controlled by well-paid executives. Bookkeeping experience will also give you training which will aid in preparing you for the profession of public accounting as a Certified Public Accountant (C. P. A.). Accountancy is a well-paid profession which is increasing in importance each year.

Those entering business as bookkeepers also find that they have many opportunities for promotion to other than bookkeeping work. The bookkeeper records the transactions of a business, and thus learns many things about how its affairs are handled that could not be learned in any other way. Much of this information is confidential and is possessed only by the manager or owner and the bookkeeper. A thorough knowledge of the business will aid you in securing promotion in many of its departments since business affairs can always be controlled most effectively by those who most thoroughly understand them.

But even if you never keep books or never work as an accountant, a knowledge of bookkeeping will have a very real value to you. The study of bookkeeping will give you an intelligent and sympathetic view of the duties of men in business and of the procedure in buying and selling goods. If you are employed in the selling, advertising, buying, delivery, or any other department, you will understand the effect of the work of one department on the others.

Knowing the accounting principles involved in connection with preparing financial reports, you will be in a better position to determine the value of investments. Whether you are the owner of a business or a wage earner, it will be necessary for you to save in order to increase the amount of property you own. The increase in the amount of this property is brought about through wise investments which produce an income.

As an individual, you will have certain social duties to perform in the contact with your fellow men. You may be called upon to act as secretary of an organization or association. In this capacity you may be required to record the transactions completed by the organization or association. A knowledge of bookkeeping will be necessary if these transactions are to be recorded so as to provide the needed information.

Should you continue your educational program through college, a knowledge of bookkeeping will be invaluable. The study of bookkeeping develops habits of regularity, promptness, accuracy, neatness, and many other elements essential to a complete, well-rounded education. Should you while in college major in commerce or accounting, a knowledge of bookkeeping will assist you in securing the greatest value from your classes. If your knowledge of bookkeeping is sufficient to permit applying it through recording the transactions completed by a business, you will have available a means of earning an income while continuing your education in college.

You will find bookkeeping a very interesting subject if you keep in mind the various ways in which you may use it. Briefly summarized they are:

(1) It may be used by you in recording transactions for a business so as to provide the information needed by the owner.

(2) If at any time you own or manage a business, you can use your knowledge of bookkeeping to interpret the information reported to you by the bookkeeper or the accounting department.

(3) Bookkeeping will give you an understanding of business which will be of assistance in completing all types of business transactions as an employee, a professional man, or the owner of a business.

(4) Bookkeeping leads to an understanding of business values that will aid you in making investments.

(5) Bookkeeping lays an excellent foundation for work in college and for securing a well-rounded education.

CHAPTER I

PROPERTY AND ITS OWNERSHIP

A business is operated in order to earn a profit for the owner, that is, to increase the amount of his property. The owner, therefore, needs to know the amount of his property and whether it is increasing or decreasing. The purpose of bookkeeping is to provide records showing the owner the amount of his property, the increases or decreases and the reasons for the changes.

Assets. In the operation of a business, property is needed. For example, if a merchant is to make sales, he must have merchandise in stock, equipment for displaying the stock, and money to pay for additional merchandise, for rent and for salaries. The money, merchandise, equipment and other property needed to carry on the operations of a business are known as *assets*.

Thus, cash is an asset, merchandise is an asset, equipment is an asset. Asset values are expressed in dollars and cents because money is the medium of exchange and the standard of value.

Property Rights. All assets are owned. The owner's (exclusive right to property) is known as *ownership, proprietorship, or capital*. If there are no debts, the value of the proprietorship is the same as the value of the assets.

Assets and Proprietorship. When the proprietor of a business owns all the assets used in the operations of the business and has no debts, his property and property rights stated in equation form are:

$$\text{ASSETS} = \text{PROPRIETORSHIP}$$

This equation applied to assets of \$2,550.00 belonging to the proprietor of a shoe business, who has no debts, is:

$$\text{ASSETS } \$2,550.00 = \text{PROPRIETORSHIP } \$2,550.00$$

If the assets mentioned in the preceding equation consist of cash \$350.00, shoes \$1,800.00, and equipment \$400.00, and C. W. Dow is the proprietor, the equation can be expressed:

$$\text{CASH } \$350.00 + \text{SHOES } \$1800.00 + \text{EQUIP. } \$400.00 = \text{C. W. DOW, PROP. } \$2550.00$$

The abbreviation "Equip." refers to "equipment" and "Prop." to "proprietorship."

Business Transactions. The exchanges incident to buying merchandise, other property and services, and selling merchandise, other property and services are referred to as *business transactions*. Each of these transactions results in a change in the nature of the assets owned and may result in an increase or decrease in the proprietorship.

C. W. Dow pays \$50.00 in cash for shoes purchased.

As a result of this transaction, the nature of the assets owned is changed, but the proprietorship is not affected. C. W. Dow owns \$50.00 less cash and \$50.00 more merchandise; the total value is the same, hence his ownership is the same.

C. W. Dow pays \$10.00 in cash for additional equipment.

As a result of this transaction, the nature of the assets owned is changed, but the proprietorship is not affected. C. W. Dow owns \$10.00 less cash and \$10.00 more equipment; the total is the same, hence his ownership is the same.

C. W. Dow receives \$125.00 in cash for sales of shoes which cost \$75.00.

As a result of this transaction, the nature of the assets owned has changed and the proprietorship has increased. The asset cash has increased \$125.00. The asset merchandise has decreased \$75.00. The total of the assets has, therefore, increased \$50.00. Since assets equal proprietorship, the proprietorship has also increased \$50.00.

C. W. Dow pays \$2.00 in cash for delivering shoes sold.

As a result of this transaction, the asset cash has decreased \$2.00. No other asset has increased, hence the total of the assets has decreased \$2.00. Since assets equal proprietorship, the proprietorship has also decreased \$2.00.

Recording Transactions. The information given with each of the foregoing illustrations states the effect of the transaction on the assets and proprietorship, but does not provide the final results of the four transactions. The owner is interested in knowing his proprietorship and the amount of each kind of assets on hand after the transactions have been completed.

C. W. Dow, a retail shoe merchant who owes no debts, has on hand Monday morning, May 12, the following assets which are used in the operation of the business: cash, \$350.00; shoes, \$1,800.00; equipment, \$400.00.

These facts stated in equation form are:

CASH \$350.00 + SHOES \$1800.00 + EQUIP. \$400.00 = C. W. DOW, PROP. \$2550.00

During the day the following transactions are completed:

Pays \$50.00 cash for shoes purchased.

This transaction decreases the asset cash and increases the asset shoes \$50.00. Its effect on the beginning equation is:

CASH \$350.00	+ SHOES \$1800.00	+ EQUIP. \$400.00		= C. W. DOW, PROP. \$2550.00
- 50.00	+ 50.00			
CASH \$300.00	+ SHOES \$1850.00	+ EQUIP. \$400.00		= C. W. DOW, PROP. \$2550.00

C. W. Dow now owns cash, \$300.00; shoes, \$1,850.00; and equipment, \$400.00; hence his ownership of the assets is \$2,550.00.

Pays \$10.00 in cash for additional equipment purchased.

This transaction decreases the asset cash and increases the asset equipment. Its effect on the preceding equation is:

$$\begin{array}{rcl} \text{CASH } \$300.00 + \text{SHOES } \$1850.00 + \text{EQUIP. } \$400.00 & = & \text{C. W. DOW, PROP. } \$2550.00 \\ - 10.00 & & + 10.00 \\ \hline \text{CASH } \$290.00 + \text{SHOES } \$1850.00 + \text{EQUIP. } \$410.00 & = & \text{C. W. DOW, PROP. } \$2550.00 \end{array}$$

C. W. Dow now owns cash, \$290.00; shoes, \$1,850.00; and equipment, \$410.00; hence his ownership of the assets is \$2,550.00.

Receives \$125.00 in cash for sale of shoes which cost \$75.00.

This transaction increases the asset cash \$125.00, decreases the asset shoes \$75.00, and increases the proprietorship \$50.00. Its effect on the preceding equation is:

$$\begin{array}{rcl} \text{CASH } \$290.00 + \text{SHOES } \$1850.00 + \text{EQUIP. } \$410.00 & = & \text{C. W. DOW, PROP. } \$2550.00 \\ + 125.00 & - & 75.00 & + 50.00 \\ \hline \text{CASH } \$415.00 + \text{SHOES } \$1775.00 + \text{EQUIP. } \$410.00 & = & \text{C. W. DOW, PROP. } \$2600.00 \end{array}$$

C. W. Dow now owns cash, \$415.00; shoes, \$1,775.00; and equipment, \$410.00; hence his ownership of the assets is \$2,600.00. His proprietorship is \$50.00 more than in the preceding equation because of the increase of \$50.00 made by selling the shoes for more than cost, that is, a price greater than he paid for them.

Pays \$2.00 in cash for delivering shoes.

This transaction decreases the asset cash \$2.00 and the proprietorship the same amount. Its effect on the preceding equation is:

$$\begin{array}{rcl} \text{CASH } \$415.00 + \text{SHOES } \$1775.00 + \text{EQUIP. } \$410.00 & = & \text{C. W. DOW, PROP. } \$2600.00 \\ - 2.00 & & - 2.00 \\ \hline \text{CASH } \$413.00 + \text{SHOES } \$1775.00 + \text{EQUIP. } \$410.00 & = & \text{C. W. DOW, PROP. } \$2598.00 \end{array}$$

C. W. Dow now owns cash, \$413.00; shoes, \$1,775.00; and equipment, \$410.00. His ownership has decreased \$2.00 because of the expense necessary to deliver the shoes sold.

Receives \$2.50 for the sale of a pair of shoes which cost \$4.75.

This transaction increases the asset cash \$2.50, decreases the asset shoes \$4.75, and decreases the proprietorship \$2.25. Its effect on the preceding equation is:

$$\begin{array}{rcl} \text{CASH } \$413.00 + \text{SHOES } \$1775.00 + \text{EQUIP. } \$410.00 & = & \text{C. W. DOW, PROP. } \$2598.00 \\ + 2.50 & - & 4.75 & - 2.25 \\ \hline \text{CASH } \$415.50 + \text{SHOES } \$1770.25 + \text{EQUIP. } \$410.00 & = & \text{C. W. DOW, PROP. } \$2595.75 \end{array}$$

C. W. Dow now owns cash, \$415.50; shoes, \$1,770.25; and equipment, \$410.00. He lost \$2.25 by selling shoes at this amount below cost.

The effect of the five transactions on the beginning equation, arranged in consecutive order, is:

$$\begin{array}{rcl}
 \text{Cash } \$350.00 + \text{Shoes } \$1800.00 + \text{Equip. } \$400.00 & = & \text{C. W. Dow, Prop. } \$2550.00 \\
 \underline{- 50.00} & \quad \quad \quad \underline{+ 50.00} & \\
 \text{Cash } \$300.00 + \text{Shoes } \$1850.00 + \text{Equip. } \$400.00 & = & \text{C. W. Dow, Prop. } \$2550.00 \\
 \underline{- 10.00} & \quad \quad \quad \underline{+ 10.00} & \\
 \text{Cash } \$290.00 + \text{Shoes } \$1850.00 + \text{Equip. } \$410.00 & = & \text{C. W. Dow, Prop. } \$2550.00 \\
 \underline{+ 125.00} & \quad \quad \quad \underline{- 75.00} & \quad \quad \quad \underline{+ 50.00} \\
 \text{Cash } \$415.00 + \text{Shoes } \$1775.00 + \text{Equip. } \$410.00 & = & \text{C. W. Dow, Prop. } \$2600.00 \\
 \underline{- 2.00} & \quad \quad \quad \underline{- 2.00} & \\
 \text{Cash } \$413.00 + \text{Shoes } \$1775.00 + \text{Equip. } \$410.00 & = & \text{C. W. Dow, Prop. } \$2598.00 \\
 \underline{+ 2.50} & \quad \quad \quad \underline{- 4.75} & \quad \quad \quad \underline{- 2.25} \\
 \text{Cash } \$415.50 + \text{Shoes } \$1770.25 + \text{Equip. } \$410.00 & = & \text{C. W. Dow, Prop. } \$2595.75
 \end{array}$$

When the last equation is compared with the first, it is observed that the proprietorship is now \$2,595.75, while in the first equation, it was only \$2,550.00. The proprietorship has increased, therefore, \$45.75 (\$2,595.75 - \$2,550.00). The assets and proprietorship show an increase because the increase resulting from the transactions is greater than the sum of the decreases.

Exercise 1, Property and Its Ownership (ORAL OR WRITTEN)

- James Allan, a fruit dealer who owed no debts, had on hand Monday morning, April 3, the following assets: cash \$900.00, fruit \$800.00. What was the value of his ownership in these assets?
- James Allan, in Question 1, paid \$600.00 cash for a delivery truck.
 - What effect did this have on the amount of cash he owned?
 - How many kinds of assets did he own after this truck was purchased?
 - What was the value of his ownership?
- Saturday night, April 8, James Allan, the fruit dealer mentioned in the two preceding questions, had assets as follows: cash \$650.00, fruit \$650.00 and delivery truck \$600.00.
 - What was the value of his assets Saturday night?
 - How much had they increased?
- State the nature of the transaction recorded under the equation below:

$$\begin{array}{rcl}
 \text{CASH } \$400 + \text{CANDY } \$500 + \text{EQUIP. } \$200 & = & \text{L. A. ORR, PROP. } \$1100 \\
 \underline{+20} & \quad \quad \quad \underline{-16} & \quad \quad \quad \underline{+ 4}
 \end{array}$$
- May 1, W. A. Call, a book dealer who owed no debts, owned assets which were used in the operation of the business as follows: cash \$350.00, books \$600.00, equipment \$100.00. What was his ownership?

6. W. A. Call received \$20.00 for a dictionary which cost \$13.00. (a) What effect did this transaction have on the asset cash? (b) on the asset books? (c) on the proprietorship?
7. Paid \$25.00 for a display case. (a) What effect did this transaction have on the asset cash? (b) on the asset equipment? (c) on the proprietorship?
8. Paid \$20.00 for services of clerk. (a) What effect did this transaction have on the asset cash? (b) on the proprietorship?
9. November 1, W. A. Crow, a hardware merchant who owed no debts, owned assets used in his business as follows: cash \$600.00, hardware \$1,500.00, equipment \$300.00. November 30, his assets were cash \$900.00, hardware \$1,100.00, equipment \$500.00. Did the operations of his business result in a profit or a loss?

Exercise 2, The Effect of Transactions on Property and Its Ownership

W. R. Allen, owner of a book shop, owed no debts and had on hand, Monday, June 14, the following assets which were used in the operations of his business: cash, \$375.00; books, \$1,250.00; and equipment, \$350.00. During the week the transactions given below were completed. Prepare equations showing (a) the proprietorship at the beginning, and (b) proprietorship after each transaction was completed; arrange your work as in the illustration at the top of page 6.

- (a) Paid cash, \$50.00, for books purchased.
- (b) Paid cash, \$15.00, for equipment purchased.
- (c) Received cash, \$75.25, for books sold which cost \$49.15.
- (d) Received cash, \$3.90, for a damaged book which cost \$5.00.
- (e) Received cash, \$91.50, for books which cost \$76.45.
- (f) Paid cash, \$15.00, for rent for the week.

Exercise 3, The Effect of Transactions on Property and Its Ownership

Monday, June 1, O. R. Bacon, a dealer in used automobiles, owed no debts and had on hand the following assets which were used in the operations of his business: cash, \$2,250.00 and used cars, \$3,550.00. During the week the transactions given below were completed. Prepare equations showing (a) the separate assets and the proprietorship at the beginning, and (b) the separate assets and the proprietorship after each transaction was completed; arrange your work as in the illustration at the top of page 6.

- (a) Paid cash, \$350.00, for used Chevrolet.
- (b) Received cash, \$600.00, for a used Buick which cost \$450.00.
- (c) Received cash, \$450.00, for a used Chevrolet which cost \$375.00.
- (d) Paid cash, \$10.00, for an advertisement in a local newspaper.
- (e) Paid cash, \$210.00, for a used Oakland.
- (f) Received cash, \$850.00, for a used Packard which cost \$675.00.
- (g) Paid cash, \$25.00, for rent for the week.
- (h) Paid cash, \$35.50, for services of two salesmen.

Recording the Effect of a Group of Transactions. It is not necessary to prepare a new equation after each transaction if the information desired is the effect on assets and proprietorship of a group of transactions. Thus, if C. W. Dow wishes to know his assets and proprietorship after completing the five transactions of May 12, the record in equation form may be as illustrated below. For comparison with the illustration, the transactions are repeated.

- (a) Began business with cash, \$350.00; shoes, \$1,800.00; equipment, \$400.00.
- (b) Paid \$50.00 in cash for shoes purchased.
- (c) Paid \$10.00 in cash for equipment.
- (d) Received cash, \$125.00, for shoes sold which cost \$75.00.
- (e) Paid \$2.00 in cash for delivering shoes.
- (f) Received cash, \$2.50, for a damaged pair of shoes which cost \$4.75.

<i>Cash</i> \$350.00	<i>Shoes</i> \$1800.00	<i>Equip.</i> \$400.00	<i>= C. W. Dow, Prop.</i> \$2550.00
- 50.00	+ 50.00		
- 10.00		+ 10.00	
+ 125.00	- 75.00		+ 50.00
- 2.00			- 2.00
+ 2.50	- 4.75		- 2.25
<i>Cash</i> \$415.50	<i>Shoes</i> \$1770.25	<i>Equip.</i> \$410.00	<i>= C. W. Dow, Prop.</i> \$2595.75

The assets and proprietorship at the beginning are indicated in equation form. The amount involved in each transaction is written on one line under the asset or proprietorship affected. Increases are indicated by the plus sign and decreases by the minus sign.

The increases indicated by a plus sign are added to the amount stated in the beginning equation. From this total, the decreases indicated by a minus sign are subtracted. The result is the present value of each asset and the proprietorship.

The Account Form. Addition and subtraction were indicated in the preceding illustrations by the use of plus and minus signs, but in bookkeeping there is a more convenient method of securing the same results. The plus and minus sign may be omitted and addition and subtraction indicated by position through the use of an *account*. The illustration at the right is a simple form of an account sometimes referred to as a "T" account. It will be observed that this is a vertical line with a horizontal line above it. An account is provided for each element in the equation; the name of the element is written above the horizontal line, as *Cash* in the illustration. This name is referred to as the *title* of the account.

CASH

In the equation, Assets = Proprietorship, the assets are always listed at the left and the proprietorship at the right. For this reason it is customary

to enter assets on the left side of accounts and proprietorship on the right. Additions to assets are also entered on the left of asset accounts so that they can be conveniently added to the original amounts. Similarly, additions to proprietorship are entered on the right of the proprietorship account.

Subtractions are not immediately deducted from previous entries but are entered on the sides of the accounts opposite from the additions since the two sides of the accounts are provided in order that subtractions may be listed separate from additions. For this reason subtractions from assets are entered on the right of the asset accounts and subtractions from proprietorship on the left of the proprietorship account.

The assets and proprietorship of C. W. Dow and the transactions completed May 12 as stated at the top of page 8 and shown in the equations on the same page, recorded in account form are as follows:

Cash		+	Shoes		+	Equipment		=	C. W. Dow, Prop.	
\$350.00	50.00		1800.00	75.00		400.00			2.00	2550.00
125.00	10.00		150.00	475		10.00			2.25	250.00
2.50	2.00									
77.50										

Cash \$415.50 + Shoes \$1770.25 + Equip. \$410.00 = C. W. Dow, Prop. \$2595.75

Illustrations. The method of recording in "T" accounts the information shown in the above illustration is explained in detail in the following paragraphs:

"C. W. Dow, a retail shoe merchant who owes no debts, has on hand Monday morning, May 12, the following assets which were used in the operations of the business: cash, \$350.00; shoes, \$1,800.00; equipment, \$400.00."

These facts stated in equation form are:

CASH \$350.00 + SHOES \$1800.00 + EQUIP. \$400.00 = C. W. Dow, PROP. \$2550.00

The facts stated in the above equation recorded in account form are:

CASH	+	SHOES	+	EQUIPMENT	=	C. W. Dow, PROP.
350.00		1800.00		400.00		2550.00

Each amount on the left of the equation is entered on the left of an account form with the title of the asset written above the horizontal line; the amount on the right of the equation is entered on the right of an account form with the title C. W. Dow, Proprietorship written above the line.

These four account forms now become *accounts* because each has information relative to one element of the business recorded in it. The first one at the left is the Cash account; the second, the Shoes account; the third, the Equipment account; and the fourth, C. W. Dow's Proprietorship account.

The *first* transaction, "Pays \$50.00 in cash for shoes purchased", decreases the asset cash and increases the asset shoes. \$50.00 is entered on the right side of the Cash account to indicate subtraction, and on the left of the Shoes account to indicate addition. When this transaction is recorded, the accounts appear as follows:

CASH		+	SHOES		+	EQUIPMENT		=	C. W. Dow, PROP.	
350.00	50.00		1800.00	50.00		400.00			2550.00	

The *second* transaction, "Pays \$10.00 in cash for additional equipment purchased", decreases the asset cash and increases the asset equipment. \$10.00 is recorded on the right side of the Cash account to indicate subtraction and on the left side of the Equipment account to indicate addition. When the transaction is recorded the accounts appear as follows:

CASH		+	SHOES		+	EQUIPMENT		=	C. W. Dow, PROP.	
350.00	50.00 10.00		1800.00	50.00		400.00 10.00			2550.00	

The *third* transaction, "Receives \$125.00 in cash for shoes which cost \$75.00", increases the asset cash \$125.00, decreases the asset shoes \$75.00, and increases the proprietorship \$50.00. \$125.00 is entered on the left side of the Cash account to indicate addition to this asset; \$75.00, on the right side of the Shoes account to indicate subtraction from this asset; and \$50.00, on the right side of the account with C. W. Dow, Proprietorship to indicate addition. Thus, both the total assets and the proprietorship are increased \$50.00. When this transaction is recorded, the accounts appear as follows:

CASH		+	SHOES		+	EQUIPMENT		=	C. W. Dow, PROP.	
350.00	50.00		1800.00	75.00		400.00			2550.00	
125.00	10.00		50.00			10.00			50.00	

The *fourth* transaction, "Pays \$2.00 in cash for delivering shoes", decreases the asset cash and does not increase any other asset. The total assets and proprietorship are, therefore, decreased \$2.00 each. \$2.00 is recorded on the right (usually referred to as *credit*) side of the Cash account, and \$2.00 on the left (usually referred to as *debit*) side of the account with C. W. Dow, Proprietorship. When this transaction is recorded, the accounts appear as follows:

CASH		+	SHOES		+	EQUIPMENT		=	C. W. Dow, PROP.	
350.00	50.00		1800.00	75.00		400.00			2.00	2550.00
125.00	10.00 2.00		50.00			10.00				50.00

The *fifth* transaction, "Receives \$2.50 for a damaged pair of shoes which cost \$4.75", increases the asset cash \$2.50, and decreases the asset shoes

\$4.75. The total assets and proprietorship, therefore, are decreased \$2.25 each. \$2.50 is recorded on the debit (left) side of the Cash account, \$4.75 on the credit (right) side of the Shoes account, and \$2.25 on the debit (left) side of the account with C. W. Dow, Proprietorship. When this transaction is recorded, the accounts appear as follows:

CASH		+	SHOES		+	EQUIPMENT		=	C. W. DOW, PROP.	
350.00	50.00		1800.00	75.00		400.00			2.00	2550.00
125.00	10.00		50.00	4.75		10.00			2.25	50.00
2.50	2.00		1850.00	79.75		410.00			4.25	2600.00
477.50	62.00									

To provide the information needed for the equation “Assets=Proprietorship”, it is necessary to ascertain the difference between the debits (sum of the amounts entered on the left) and the credits (sum of the amounts entered on the right) of each account. The difference between the two sides of an account is referred to as the *balance of the account*.

The sum of the debits to the Cash account, \$477.50, minus the sum of the credits, \$62.00, is \$415.50, the balance of the Cash account. This balance should be the same as the cash on hand, ascertained by count.

The sum of the debits to the Shoes account, \$1,850.00, minus the sum of the credits, \$79.75, is \$1,770.25, the balance of the Shoes account.

The sum of the debits to the Equipment account, \$410.00, is the balance of the Equipment account because there are no credits to subtract.

The sum of the credits to the account with C. W. Dow, Prop., \$2,600.00, minus the sum of the debits, \$4.25, is \$2,595.75, the balance of C. W. Dow, Proprietorship account.

These account balances stated in equation form are:

CASH \$415.50 + SHOES \$1,770.25 + EQUIP. \$410.00 = C.W.Dow, PROP.\$2,595.75

The same information in statement form, that is in the form of an equation with addition and subtraction indicated by position, is:

Cash	.....\$	415.50
Shoes	.....	1770.25
Equipment		410.00
Assets	.....\$	2595.75 = C. W. Dow, Proprietorship \$2595.75

C. W. Dow is interested in knowing the profit resulting from the group of transactions completed. This information may be shown in statement form as follows:

Ending Proprietorship	.....\$	2595.75
Less Beginning Proprietorship	...	2550.00
Net Profit	.....\$	45.75

SUMMARY

Property is needed in the operations of a business. When the owner owes no debts, his proprietorship is the value of the property used in his business. Transactions cause changes in property values and proprietorship.

(The account is a bookkeeping device for indicating addition and subtraction by position.) The assets in the equation $\text{Assets} = \text{Proprietorship}$ are recorded on the *left* side of asset accounts. The proprietorship on the right of the equation $\text{Assets} = \text{Proprietorship}$ is recorded on the *right* side of the proprietor's account.

The term *debit* describes the left side of an account, and *credit*, the right side of an account.

Increases in assets are debits because they are additions to the assets owned. Decreases in assets are credits because they are subtractions from assets owned.

Increases in proprietorship are credits because they are additions to the proprietorship. Decreases in proprietorship are debits because they are subtractions from proprietorship.

✓ The *balance of an account* is the difference between the two sides.

The sum of the assets equals the proprietorship when the proprietor has no debts to be paid out of the assets.

✓ The profit is the difference between the net investment and the ending or present proprietorship.

Exercise 4, "T" Accounts

(ORAL OR WRITTEN)

1. How would the facts stated in the equation below be recorded in "T" accounts as illustrated on page 9?

$$\text{CASH } \$400.00 + \text{HATS } \$600.00 = \text{A. L. KING, PROPRIETORSHIP } \$1000.00$$

2. If A. L. King paid \$100.00 in cash for equipment, what effect would this have on the equation stated in Question 1?
3. How would the facts recorded in the following accounts be stated in equation form?

<i>debit</i> CASH <i>credit</i>	GROCERIES <i>c</i>	EQUIPMENT <i>c</i>	<i>debit</i> O. B. RAY, PROP. <i>credit</i>
250.50	650.90	300.00	1201.40

4. How would the facts shown in the following equation be recorded in "T" accounts?

$$\begin{array}{r} \text{CASH } \$250.00 + \text{TRUNKS } \$375.50 = \text{B. C. BEAR, PROPRIETORSHIP } \$625.50 \\ \quad \underline{-50.00} \qquad \qquad \quad \underline{+50.00} \end{array}$$

5. Why does the proprietorship decrease when cash is paid for delivering merchandise?
6. Why does the proprietorship increase when merchandise is sold at a profit?
7. If you pay a merchant \$6.00 for a pair of shoes which cost him \$3.50, what effect does this have on his assets and proprietorship?
8. October 1, Robert Dunn, a radio dealer, began business with cash, \$1,500.00. October 31 the asset accounts in which the transactions completed during October were recorded show the following balances:

CASH	RADIOS	ROBT. DUNN, PROP.
950.00	725.00	

- (a) What amount should be recorded in the proprietorship account?
- (b) How much did he make by operating the business during the month?
9. April 1, R. L. Mann, a retail grocer, owned and used in his grocery business the following assets: cash, \$1,000.00; groceries, \$500.00; delivery truck, \$600.00. How would these facts be recorded in "T" accounts?
10. "Paid cash, \$150.00, for groceries purchased." How would this transaction be recorded in the accounts required in Question 9?
11. "Paid cash, \$50.00, for April rent." How would this transaction be recorded in the accounts used in the preceding questions?
12. "Took for home use groceries which cost \$15.00." How would this transaction be recorded in the accounts mentioned in the three preceding questions?

Exercise 5, Recording Transactions

May 1, D. C. Watson, a radio dealer, owned assets used in his business as follows: cash, \$529.65; radios, \$1,223.62; he owed no debts. Record his assets and proprietorship, and the following transactions in "T" accounts as illustrated on page 9. Show the proprietorship and profit in statement form as illustrated on page 11.

- (a) Received cash, \$250.00, for a radio which cost \$200.00.
- (b) Paid cash, \$5.50, to have the radio delivered and installed.
- (c) Paid cash, \$350.00, for two radios purchased for sale.
- (d) Received cash, \$100.00, for a radio which cost \$75.00.
- (e) Paid cash, \$5.00, for an advertisement.
- (f) Received cash, \$50.00, for a radio which cost \$42.50.

Exercise 6, Recording the Effect of a Group of Transactions

July 12, Miss Ada Gill, an art dealer, owned assets used in her business as follows: cash, \$365.50; art supplies, \$929.65; equipment, \$275.00; she owed no debts. Record her assets and proprietorship, and the following transactions in "T" accounts similar to the illustration on page 9. Prepare the two statements showing proprietorship and net profit as illustrated on page 11.

Art supplies may be described by "Mdse.", the abbreviation of merchandise.

- (a) Paid cash, \$25.00, for two pieces of tapestry at \$12.50 each.
- (b) Received cash, \$42.50, for a picture which cost \$28.75.
- (c) Paid cash, 50c, for delivering the picture.
- (d) Paid cash, \$125.50, for art supplies purchased.
- (e) Received cash, \$150.00, for tapestry which cost \$95.00.
- (f) Paid cash, \$5.00, for an advertisement in the local newspaper.
- (g) Received cash, \$125.00, for a statue which cost \$85.00.
- (h) Paid cash, \$1.00, for delivering the statue.
- (i) Paid cash, \$20.00, for rent for the week.

Exercise 7, Recording the Effect of a Group of Transactions

October 5, A. B. Harris, a jeweler, owned assets used in his business as follows: cash, \$895.50; jewelry, \$2,175.00; equipment, \$300.00; he owed no debts. Record his assets and proprietorship, and the following transactions in "T" accounts similar to the illustration on page 9. Prepare the two statements showing proprietorship and net profit as illustrated on page 11.

- (a) Received cash, \$50.00, for a watch which cost \$32.50.
- (b) Paid cash for six watches at \$12.25 each.
- (c) Paid cash, \$25.00, for rent for the week.
- (d) Received cash, \$12.50, for a clock which cost \$9.75.
- (e) Paid cash, 25c, for delivering the clock.
- (f) Received cash, \$12.25, for one of the watches returned.
- (g) Received cash, \$22.50, for one dozen silver spoons which cost \$17.50.
- (h) Received cash, \$150.00, for a ring which cost \$69.75.
- (i) Paid cash, \$1.25, for having ring engraved.

You may assume that the engraving was a service necessary to make the sale, and record the amount as a decrease in proprietorship.

- (j) Received cash, \$80.00, for chime clock which cost \$55.00.
- (k) Paid cash, \$15.00, for services of the clerk.

CHAPTER II

INCREASES AND DECREASES IN PROPRIETORSHIP INCOME AND EXPENSE

The discussion in this chapter relates to the method of recording increases and decreases in proprietorship in accounts with Purchases, Sales and Expense. The separate accounts provide the owner with more information than when the increases and decreases are recorded in one account with the proprietor as illustrated in the preceding chapter.

Income. When cash or other assets are received for merchandise sold, the transaction usually results in an increase in assets and proprietorship. The increase in proprietorship resulting from the increase in assets is usually referred to as *income*.

The method of recording the income at the time of each sale was discussed and illustrated in the preceding chapter. This method is satisfactory in that it provides information about the increase in proprietorship, but it is not commonly followed since it is not practical to figure the profit on each sale when hundreds or thousands of sales are made daily. Furthermore, the proprietor has just as satisfactory information about his business if he knows the increase in proprietorship at intervals as he would have if he knew it after each sale.

It is, therefore, customary to record the purchases of merchandise in one account and the sales of merchandise in another and at intervals to determine from these accounts the profit made. The intervals may vary in length, but are never more than twelve months because the government requires annual reports of income. During the period the proprietor knows that his income is increasing because of sales, but he waits until the end to know the exact amount of the increase.

Recording Purchases. Each transaction in which cash is paid for merchandise purchased results in an increase in the asset merchandise and a decrease in the asset cash. The increase in the asset merchandise is recorded as a debit to an account with the title *Purchases*, and the decrease in the asset cash, as a credit to an account with *Cash*.

Recording Sales. Each transaction in which cash is received for merchandise sold is regarded as an increase in the asset cash and an increase in the income. The increase in the asset cash is recorded as a debit to the *Cash* account and the increase in the income as a credit to the *Sales* account. The *Sales* account is credited since the tendency of income is to increase proprietorship. The income account is therefore debited and credited in the same manner as proprietorship; it is credited for increases and debited for decreases.

Method of Recording Purchases and Sales. The method of recording transactions in which merchandise is bought and sold for cash in the manner suggested in the preceding discussion is further explained by illustrations.

A. L. Hope invests \$1,000.00 cash in the retail hat business. Stated in equation form his assets and proprietorship are:

$$\text{CASH } \$1000 = \text{A. L. HOPE, PROPRIETORSHIP } \$1000$$

The facts in this equation recorded in account form are:

CASH	A. L. HOPE, PROP.
1000.00	1000.00

During the first week of operations A. L. Hope completes the following transactions:

(a) Pays \$600.00 in cash for a stock of hats.

This transaction results in an increase in the asset merchandise \$600.00 and a decrease in the asset cash \$600.00, hence is recorded as a debit to the Purchases account and a credit to the Cash account.

The foregoing accounts with this transaction recorded as suggested are:

CASH		+	PURCHASES	=	A. L. HOPE, PROP.
1000.00	600.00		600.00		1000.00

An equation prepared from these account balances is:

$$\text{CASH } \$400 + \text{PURCHASES } \$600 = \text{A. L. HOPE, PROP. } \$1000$$

(b) Receives cash, \$90.00, for hats sold.

This transaction results in an increase in the asset cash \$90.00 and an increase in the income sales \$90.00, hence is recorded as a debit to the Cash account and a credit to the Sales account.

The foregoing accounts with this transaction recorded as suggested are:

CASH		+	PURCHASES	=	A. L. HOPE, PROP.	+	SALES
1000.00	600.00		600.00		1000.00		90.00
90.00							
1090.00							

An equation prepared from these account balances is:

$$\text{CASH } \$490 + \text{PURCHASES } \$600 = \text{A. L. HOPE, PROP. } \$1000 + \text{SALES } \$90$$

(c) Pays \$180.00 in cash for hats purchased.

The effect of this transaction is the same in nature as in the first one completed, hence is recorded in the same manner, that is, as a debit to the Purchases account for \$180.00, and a credit to the Cash account for \$180.00.

The foregoing accounts with this transaction recorded as suggested are:

CASH		PURCHASES		A. L. HOPE, PROP.		SALES	
1000.00	600.00	600.00		1000.00		90.00	
90.00	180.00	180.00					
1090.00	780.00	780.00					

An equation prepared from these account balances is:

$$\text{CASH } \$310 + \text{PURCHASES } \$780 = \text{A. L. HOPE, PROP. } \$1000 + \text{SALES } \$90.00$$

(d) Receives cash, \$128.00, for hats sold.

The effect of this transaction is the same in nature as in the second one completed, hence is recorded in the same manner, that is, as a debit to the Cash account for \$128.00, and a credit to the Sales account for \$128.00.

The foregoing accounts with this transaction recorded as suggested are:

CASH		PURCHASES		A. L. HOPE, PROP.		SALES	
1000.00	600.00	600.00		1000.00		90.00	
90.00	180.00	180.00				128.00	
128.00	780.00	780.00				218.00	
1218.00							

An equation prepared from the above account balances is:

$$\text{CASH } \$438 + \text{PURCHASES } \$780 = \text{A. L. HOPE, PROP. } \$1000 + \text{SALES } \$218$$

This is an equation but it does not show proprietorship since the cost of the hats sold is not deducted from the Purchases account. When the cost of the hats sold is known, the proprietorship and net profit may be determined.

Method of Determining Proprietorship and Profit. The Purchases account shows the total purchases but some of the goods have been sold. The asset value of the merchandise in the store is, therefore, less than the value of the goods bought.

The value of the merchandise in stock is ascertained through *taking stock*. The quantity of each class of merchandise on hand is ascertained by making an actual count. The value of the merchandise is then found by multiplying the quantity by the cost price. (The value of this merchandise on hand is referred to as *merchandise inventory*.)

Following this process of taking stock, A. L. Hope finds that he has on hand hats worth \$625.00.

The cost of the merchandise sold is referred to as the cost of merchandise sold, cost of goods sold, or *cost of sales*. It is the difference between the total cost (balance of Purchases account) and the merchandise inventory. The method of ascertaining the cost of merchandise sold for A. L. Hope is as follows:

Total Purchases (Balance of Purchases account)	\$780.00
Less Merchandise Inventory (Ascertained by count)	625.00
Cost of Merchandise Sold	\$155.00

Purchases - inventory = Cost of merchandise sold

The increase in proprietorship because of sales is referred to as *profit on sales*. When the cost of merchandise sold is known, the profit on sales may be ascertained by subtracting the cost from the total sales. The method of ascertaining the profit on sales for A. L. Hope is as follows:

Total Sales (Balance of Sales account) . . .	\$218.00
Less Cost of Merchandise Sold	<u>155.00</u>
Profit on Sales	\$ 63.00

The above statement shows the profit, but the owner is also interested in knowing his proprietorship. Since the proprietorship is equal to the sum of the assets, the proprietorship is shown in the following equation in statement form, that is, with addition indicated by position.

(1) A statement in which Assets = Proprietorship.

Cash (Cash account)	\$ 438.00
Mdse. Inv. (By count) . . .	<u>625.00</u>
Assets	\$1,063.00 = A. L. H., Prop. \$1,063.00

The proprietorship is now greater than before the transactions were completed because of the profit made on sales. The cost of merchandise sold is shown in the statement at the bottom of page 17 and the profit on sales, in the statement at the top of this page. The same facts may be shown in one statement, as follows:

(2) A statement showing cost of merchandise sold and profit on sales.

Sales (Sales account)	\$218.00
Purchases (Purchases account)	<u>\$780.00</u>
Less Mdse. Inventory (By count)	<u>625.00</u>
Cost of Merchandise Sold	155.00
Profit on Sales	\$ 63.00

The first statement shows the proprietorship and the second shows the reason for the change in proprietorship. A third statement which proves the correctness of the previous calculations may be prepared as follows:

(3) A statement showing proof of proprietorship.

Beginning Proprietorship	\$1,000.00
Profit on Sales	<u>63.00</u>
Present Proprietorship	\$1,063.00

It will be observed that the proprietorship found by adding the beginning proprietorship and the profit is the same as that found by adding the assets. This is true since the profit comes from the increase in assets, that is, from selling goods for more than their cost. Ascertaining the same proprietorship by the two methods proves the correctness of the calculations. The second method also shows how the increases come about, and thus provides the proprietor with that information not given by the equation in which assets equal proprietorship.

SUMMARY

[The merchandise inventory is ascertained by counting the merchandise in stock. The cost of merchandise sold is the difference between the balance of the Purchases account and the merchandise inventory. The profit on sales is the difference between the cost of merchandise sold and the balance of the Sales account. An equation in which Assets = Proprietorship can be prepared from the balances of the asset accounts and the amount of the merchandise inventory.]

Exercise 8, Purchases and Sales

(ORAL OR WRITTEN)

1. Robert Clark invested \$500.00 in cash in a retail candy business. How will this be stated (a) in equation form? (b) in account form?

2. Robert Clark paid \$300.00 in cash for candy purchased. How will the effect of this transaction on the preceding equation be stated (a) in equation form? (b) in account form?

3. Robert Clark received cash, \$10.00, for sales of candy. How will the effect of this transaction on the equation in Question 2 be stated (a) in equation form? (b) in account form?

4. Robert Clark paid \$50.00 cash for equipment. How will the effect of this transaction on the equation given in answer to Question 3 be stated (a) in equation form? (b) in account form?

5. The purchases and sales made during the month of May by Albert Baum, a retail florist, are shown in the illustrations at the right. (a) How much were the total purchases during the month? (b) How much were the total sales during the month? (c) What was the cost of the flowers sold, if \$200.00 worth of flowers were on hand at the end of the month?

PURCHASES		SALES	
150.00			160.00
125.00			200.00
115.00			180.00
200.00			120.00

(d) What was the profit made by selling flowers during the month?

6. The Purchases account in the illustration at the left shows a record of the purchases made during the month of July, by O. R. Daley, a hardware merchant. The value of the merchandise on hand, July 31, was \$900.00. What was the cost of the merchandise sold?

PURCHASES	
300.00	
650.00	
450.00	

7. During the month of July, O. R. Daley (Question 6) made a profit of \$300.00 on merchandise sold. (a) What was the balance of the Sales account? (b) Was it a credit or a debit balance?

8. How will the following equation be recorded in accounts?

CASH \$250.00 + PURCHASES \$400.00 = O. C. ORR, PROP. \$500.00 + SALES \$150.00

Exercise 9, Purchases and Sales

Record the following transactions in "T" accounts with Cash, Purchases, J. W. Miller, Proprietorship, and Sales as illustrated on page 17.

- (a) J. W. Miller invested cash, \$2,000.00, in the retail grocery business.
- (b) Paid cash, \$1,250.00, for stock of merchandise.
- (c) Received \$89.50 in cash for merchandise sold.
- (d) Paid cash for twelve dozen eggs at 35c per dozen.
- (e) Paid \$11.00 in cash for 25 lbs. of butter.
- (f) Received \$127.50 in cash for merchandise sold.
- (g) Paid \$1.20 in cash to a customer for two pounds of butter returned.

Debit Sales to record the decrease in sales and credit Cash to record the decrease in the asset cash.

- (h) Paid \$56.75 in cash for merchandise purchased.
- (i) Received \$2.00 in cash for a part of the merchandise returned.

Debit Cash to record the increase in the asset cash and credit Purchases to record the decrease in the purchases.

Cash balance \$895.85.

Value of merchandise in stock \$1,171.65.

Show in statement form similar to the illustrations on page 18:

- (1) Assets = Proprietorship.
- (2) Cost of Sales and Profit on Sales.
- (3) Proof of Proprietorship.

Exercise 10, Purchases and Sales

Record the following transactions in "T" accounts with Cash, Purchases, B. H. Young, Proprietorship and Sales as illustrated on page 17.

- (a) B. H. Young invested \$500.00 in cash, in a delicatessen store.
- (b) Paid \$350.00 in cash for merchandise purchased.
- (c) Received \$32.50 in cash for sales of merchandise.
- (d) Paid \$14.75 in cash for merchandise purchased.
- (e) Received \$35.50 in cash for sales of merchandise.
- (f) Paid 80c in cash to a customer for one pound of boiled ham returned.
- (g) Paid \$4.50 in cash for one box of grapefruit.
- (h) Received \$42.50 in cash for sales of merchandise.

Cash balance \$240.45.

Value of merchandise in stock \$314.30.

Show in statement form similar to the illustrations on page 18:

- (1) Assets = Proprietorship
- (2) Cost of Sales and Profit on Sales.
- (3) Proof of Proprietorship.

Exercise 11, Profit on Sales

(1) On a sheet of paper ruled with columns similar to the form below copy the figures given and fill in the blank spaces.

	Purchases	Inventory	Cost of Sales	Sales	Profit on Sales
(a)	\$2250	\$ 650	.....	\$2500	.....
(b)	2300	.....	.....	2150	\$250
(c)	.....	550	\$ 740	1200	.....
(d)	3500	2150	.....	2165	.....
(e)	.....	1227	2650	.....	665
(f)	2800	.....	2050	.....	740
(g)	1875	900	.....	1520	.....

(2) Show the purchases and sales in the first two problems recorded in "T" accounts with Purchases and Sales.

DECREASES IN PROPRIETORSHIP

Expense. When cash is paid for rent, salaries, telephone, or similar services, the transaction results in a decrease in the asset cash and a decrease in proprietorship. The term *expense* is used to describe decreases in proprietorship resulting from the giving of assets by the business for services rendered to it.

In the preceding chapter decreases in proprietorship because of cash paid for expenses were recorded as debits to the account with the proprietor. The same effect may be obtained by recording transactions of this nature as debits to an account with the title Expense and credits to the Cash account.

All expense is regarded as a decrease in proprietorship, hence the Expense account is debited in the same manner as the proprietor's account would be debited if expenses were recorded in the proprietorship account.

Accounts with Expense. Should the owner wish to know the cost of each kind of service rendered to the business, the decreases in proprietorship because of expenses may be classified and recorded in separate accounts with appropriate titles. Thus, if he wishes to know the amount paid as salaries, the title of this account is *Salary Expense*. If he wishes to know the amount paid for rent, the title of this account is *Rent Expense*.

Usually when separate accounts are provided for two or more classes of expense, an additional account is necessary in which to record expenses of a miscellaneous nature. The title of this account is *Miscellaneous Expense* or *General Expense*.

When the expenses are recorded in separate accounts, the sum of the debit balances of these accounts will be the same as would be shown by the balance of the one expense account.

Method of Recording Increases and Decreases in Proprietorship.

The method of recording transactions in which cash is paid for merchandise purchased, cash is received for merchandise sold, and cash is paid for operating expenses* is further explained by the following illustrations.

L. B. Carr buys and sells automobile tires for cash. Monday morning, June 5, he has cash, \$1,250.00. Stated in equation form his assets and proprietorship are:

$$\text{CASH } \$1250.00 = \text{L. B. CARR, PROPRIETORSHIP } \$1250.00$$

The facts in this equation recorded in accounts are:

CASH	=	L. B. CARR, PROP.
1250.00		1250.00

During the week he completes the following transactions:

(a) Pays cash for 100 tires, \$875.00.

After this transaction is recorded, the accounts are as follows.

CASH	+	PURCHASES	=	L. B. CARR, PROP
1250.00		875.00		1250.00
875.00				

(b) Pays \$50.00 in cash, rent for the week.

The Cash account is credited to record the decrease in the asset cash, the Expense account is debited to show subtraction from proprietorship because of the decrease in the asset.

After this transaction is recorded, the accounts are as follows:

CASH	+	PURCHASES	=	L. B. CARR, PROP.	-	EXPENSE
1250.00		875.00		1250.00		50.00
875.00						
50.00						

(c) Receives cash, \$325.00, for 25 tires at \$13.00 each.

After this transaction is recorded, the accounts are as follows:

CASH		+	PURCHASES		=	L. B. CARR, PROP.		+
1250.00	875.00		875.00				1250.00	
325.00	50.00							
SALES		-	EXPENSE					
	325.00		50.00					

*Only one expense account is here used for expenses. The method of recording operating costs in separate expense accounts will be developed in succeeding lessons.

(d) Pays \$62.50 in cash for 25 tubes at \$2.50 each.

After this transaction is recorded, the accounts are as follows:

CASH		PURCHASES		L. B. CARR, PROP.	
+		+		=	
1250.00	875.00	875.00			1250.00
325.00	50.00	62.50			
	62.50				
SALES		EXPENSE			
-		-			
	325.00	50.00			

(e) Receives cash, \$145.00, for 10 tires at \$13.00 and 5 tubes at \$3.00

After this transaction is recorded, the accounts are as follows:

CASH		PURCHASES		L. B. CARR, PROP.	
+		+		=	
1250.00	875.00	875.00			1250.00
325.00	50.00	62.50			
145.00	62.50				
SALES		EXPENSE			
-		-			
	325.00	50.00			
	145.00				

(f) Pays \$25.00 in cash for an advertisement of a bargain sale

After this transaction is recorded, the accounts are as follows:

CASH		PURCHASES		L. B. CARR, PROP.	
+		+		=	
1250.00	875.00	875.00			1250.00
325.00	50.00	62.50			
145.00	62.50				
	25.00				
SALES		EXPENSE			
-		-			
	325.00	50.00			
	145.00	25.00			

(g) Receives cash, \$657.50, as a result of the bargain sale, for 55 tires at \$11.50 and 10 tubes at \$2.50.

After this transaction is recorded, the accounts are as follows:

CASH		PURCHASES		L. B. CARR, PROP.	
+		+		=	
1250.00	875.00	875.00			1250.00
325.00	50.00	62.50			
145.00	62.50				
657.50	25.00				
SALES		EXPENSE			
-		-			
	325.00	50.00			
	145.00	25.00			
	657.50				

(h) Pays \$62.50 in cash for clerks' salaries.

After this transaction is recorded, the accounts are as follows:

CASH		+	PURCHASES	=	L. B. CARR, PROP.	+
1250.00	875.00		875.00		1250.00	
325.00	50.00		62.50			
145.00	62.50		937.50			
657.50	25.00					
2377.50	62.50					
	1075.00					
SALES			EXPENSE			
			325.00	50.00		
			145.00	25.00		
			657.50	62.50		
			1127.50	137.50		

L. B. Carr wishes to ascertain his proprietorship Saturday night. Before ascertaining proprietorship it is necessary to prove that the cash on hand agrees with the balance of the Cash account, and to take stock of the merchandise on hand.

A count of the cash on hand showed \$1,302.50, which agrees with the balance of the Cash account. The merchandise inventory ascertained by a count of the tires and tubes on hand shows the following:

10 tires, cost \$8.75 each	\$ 87.50
10 tubes, cost \$2.50 each	25.00
Total	\$112.50

There is no account with which the value of the merchandise inventory, \$112.50, can be checked the same as cash. For this reason, it is customary in some lines of business to provide a record of the number of units purchased and sold so that the merchandise inventory may be checked with the number of units remaining unsold. The chief objection to this supplementary record is the expense because of the clerical work necessary to maintain it. When the supplementary record is not maintained, it is necessary to accept the value of the inventory as correct.

An equation prepared from the balances of the accounts shown at the top of this page is:

$$\text{CASH } \$1302.50 + \text{PURCHASES } \$937.50 = \text{L. B. CARR, PROP. } \$1250.00 + \text{SALES } \$1127.50 - \text{EXPENSE } \$137.50$$

This is an equation because the sum of the two amounts on the left side of the equality sign equals the sum of the first two amounts on the right side minus the third amount. This, however, is not an equation in which "Assets = Proprietorship" because the cost of the tires and tubes sold has not been recorded.

Ascertaining Proprietorship and Profit. As explained on page 17, the proprietorship may be ascertained from the account balances in the equation and the merchandise inventory. The three equations in statement form prepared from this equation in the same form as those on page 18 are as follows:

(1) A statement in which Assets = Proprietorship.

Cash (Cash account).....	\$1,302.50	
Mdse. Inv. (See list, page 24)	112.50	
Total Assets	\$1,415.00	= L. B. C., PROP. \$1,415.00

(2) A statement showing cost of sales, profit on sales and net profit.

Sales (Sales account)		\$1,127.50
Purchases (Purchases account)	\$937.50	
Less Mdse. Inventory (See list, page 24) ..	112.50	
Cost of Tires Sold		825.00
Profit on Sales.....		302.50
Less Expenses (Expense account).....		137.50
Net Profit.....		\$165.00

This statement shows the profit on sales ascertained in the same manner as in the second statement on page 18, also the net profit. The net profit is ascertained by deducting the expenses from the profit on sales.

(3) A statement showing proof of proprietorship.

L. B. Carr, Beginning Proprietorship.....	\$1,250.00
Net Profit.....	165.00
L. B. Carr, Present Proprietorship.....	\$1,415.00

The fact that the proprietorship resulting from the sum of the assets is the same as the proprietorship resulting from adding the net profit to the beginning proprietorship indicates that the calculations are correct. At the beginning, the sum of the assets equals the proprietorship. As a result of the transactions completed, the assets increase the same amount as the income increases and the assets decrease the same amount as the expense increases. Because of these facts, the proprietorship shown by the sum of the assets should be the same as the proprietorship shown by the net investment plus the net profit.

SUMMARY

The sum of the assets at the beginning of business equals the sum of the proprietorship when there are no debts. When cash is received and paid in all transactions, each transaction results in one of the following:

(1) A decrease in one asset and a corresponding increase in another asset.

Handwritten: At Mdse Inv = 100
 Cash = 100

- (2) An increase in one asset and a corresponding increase in income.
- (3) A decrease in one asset and a corresponding increase in expense.

Each transaction is recorded so as to show the changes in assets, assets and income, or assets and expense. This record is made in the following manner

(1) Increases in assets and increases in expense are recorded as *debits* in the appropriate accounts.

(2) Decreases in assets and increases in income are recorded as *credits* in the appropriate accounts.

Proprietorship may be ascertained from the balances of the asset accounts and the merchandise inventory ascertained by count.

The cost of sales is the difference between the balance of the Purchases account and the closing merchandise inventory.

The profit on sales is the difference between the balance of the Sales account and the cost of sales.

The net profit is the difference between the profit on sales and the balance of the Expense account.

The discussion in this chapter relates to the method of ascertaining proprietorship when the cost of sales is to be recorded after a number of sales have been made. The method of recording the cost of sales and recording the net profit in the owner's proprietorship account is explained in a subsequent chapter.

Exercise 12, Income and Expense

(ORAL OR WRITTEN)

1. (a) Describe the transaction which resulted in the information contained in the accounts at the right.
 (b) Which account records the asset? (c) Which account the income?

CASH	SALES
35.50	35.50

2. J. L. Ray began business with a cash investment of \$1,000.00. State his proprietorship (a) in equation form; (b) in account form.
3. J. L. Ray paid \$50.00 for rent. State the effect of this transaction on the preceding equation (a) in equation form; (b) in account form.
4. J. L. Ray paid \$600.00 for merchandise purchased. State the effect of this transaction on the preceding equation (a) in equation form; (b) in account form.
5. J. L. Ray received \$300.00 for merchandise sold. State the effect of this transaction on the preceding equation (a) in equation form; (b) in account form.
6. J. L. Ray wishes to know his proprietorship after the transactions are completed. The cash on hand is \$650.00, and the merchandise inventory, \$400.00. (a) What is the cost of the merchandise sold? (b) What is the profit on sales? (c) What is the proprietorship of J. L. Ray?

7. July 1. Mary L. Davis, owner of the Candy Kitchen, owned assets which she used in the operations of the business as follows: cash \$680.00 and equipment \$500.00; she owed no debts. At the end of July the account balances resulting from the transactions completed during July were as follows:

CASH		PURCHASES		EQUIPMENT			
905.00		650.00		500.00			
MARY L. DAVIS, PROP.		SALES		EXPENSE			
	1180.00		1000.00		125.00		

Miss Davis wishes to know her proprietorship July 31. The cash on hand agrees with the balance of the Cash account. The merchandise inventory is \$100.00. (a) What is the cost of the merchandise sold? (b) What is the profit on sales? (c) What is the net profit? (d) What is her proprietorship July 31?

8. The balances of the Purchases and Sales accounts as a result of purchases and sales made by A. L. Ball, a retail merchant, are shown in the accounts at the right. The merchandise inventory is \$450.00. (a) What is the cost of sales? (b) What is the profit on sales?

PURCHASES		SALES	
1450.00			1675.00

9. The results of the cash transactions completed by A. B. Crowe during the month of June are shown in the following equation:

CASH \$800.00 + PURCHASES \$1200.00 = A. B. CROWE, PROP.
\$650.00 + SALES \$1500.00 - EXPENSE \$150.00.

A. B. Crowe wishes to ascertain his proprietorship June 30, and his profit for June. The cash on hand agrees with the balance of the Cash account. The merchandise inventory is \$200.00. (a) What facts will appear in an equation which shows "Assets = Proprietorship?" What is (b) the cost of sales? (c) the profit on sales? (d) the net profit?

10. State the amounts omitted from the columns below:

	Purchases	Sales	Inventory	Cost of Sales	Profit on Sales	Expense	Net Profit
(a)	\$1200	\$1600	\$150	.....	.....	\$100	.....
(b)	.....	2100	700	\$1300	.....	300	.....
(c)	1800	.....	.....	1200	\$300	150	.....
(d)	.....	2500	600	1800	.....	450	.....
(e)	3200	.....	.....	2700	900	350	.....

Exercise 13, Recording Transactions

J. A. Lamb, a butcher, had the following assets on Monday morning, November 12: cash, \$462.50; equipment, \$800.00. He owed no debts. During the week he completed the following transactions:

- (a) Paid Sander Packing Co. \$68.75 in cash for meat purchased.
- (b) Received cash for meat sold, \$42.50.
- (c) Paid cash for additional equipment purchased, \$5.00.
- (d) Paid Swift Co. \$57.25 in cash for meat purchased.
- (e) Received cash for meat sold, \$94.47.
- (f) Paid cash for rent for the week, \$20.00.
- (g) Paid Meyer Packing Co. \$72.95 in cash for meat purchased.
- (h) Received cash for meat sold, \$204.05.
- (i) Paid cash to clerk for services, \$12.50.

Value of meat on hand, \$25.60; cash on hand, \$567.07.

Instructions. (1) Record the assets and proprietorship Monday morning and the transactions completed during the week in "T" accounts with Cash, Equipment, J. A. Lamb Proprietorship, Sales, Purchases, and Expense.

(2) Show proprietorship, net profit, and proof of proprietorship in statements as illustrated on page 25.

Exercise 14, Recording Transactions

Miss Maud Davis, a dealer in flowers, began business Monday morning, July 6, with cash \$327.50, and equipment \$275.00; she owed no debts. During the week she completed the following transactions:

- (a) Paid cash for flowers purchased, \$35.25.
- (b) Paid cash for weekly rent, \$18.50.
- (c) Received cash for flowers sold, \$31.85.
- (d) Paid cash for flowers purchased, \$27.50.
- (e) Paid cash for flowers returned to her per agreement, \$1.25.
- (f) Paid cash for flowers and express charges, \$25.50.
- (g) Received cash for flowers sold, \$62.55.
- (h) Paid cash for flowers purchased, \$37.50.
- (i) Received cash for flowers sold, \$64.55.
- (j) Paid cash for flowers purchased, \$28.75.
- (k) Paid delivery boy \$16.45 in cash for weekly salary and car fare.
- (l) Paid cash for additional equipment, \$50.00.
- (m) Received cash for all the remaining flowers sold, \$91.40.

A count of the cash showed the amount on hand to be \$337.15.

Instructions. (1) Record the assets and proprietorship Monday morning and the transactions completed during the week in "T" accounts with Cash, Equipment, Maud Davis Proprietorship, Sales, Purchases and Expense.

(2) Show proprietorship, net profit, and proof of proprietorship in statements as illustrated on page 25.

Handwritten note: a copy of the transactions are found

Burns & Co. Chicago

CHAPTER III

THE JOURNAL AND JOURNALIZING

The accounts discussed in the preceding chapters provide the proprietor of a business with valuable information about assets, proprietorship, income, and expense. Additional information may be needed. The discussion and illustrations in this chapter relate to a method of securing some of this additional information.

Journal. Full information about transactions may be provided by recording them in a book referred to as the *journal*. In this book each transaction may be entered as it occurs together with the complete details. The details include the date, the accounts affected, the amounts, and any necessary explanation.

The journal is sometimes referred to as a book of original entry because transactions are first recorded in it and then transferred to the accounts in a separate book. The journal is ruled so that the entries can be made and transferred most conveniently. Spaces are provided for the dates, the account titles, the amounts and the explanations.

The illustration below shows a typical journal form. The illustration on page 32 shows a similar form with a number of transactions recorded on it. The account to be debited and the amount, and the account to be credited and the amount are indicated by position.

The amount to be recorded on the *debit* side of an account is entered in the first money column and the title of the account written on a line with it and at the *left*. The amount to be recorded on the *credit* side of an account is entered in the second money column and the account title written at the left but *indented*. The column at the left marked "L. F." is used when the amounts are being transferred to the accounts.

month Date day - year

Debit		Credit	
Dollars	Cts.	Dollars	Cts.
LF Name of Account Debited			
Name of Account Credited			
Explanation of the transaction.			
(Date of next entry)			
[The succeeding entries on the page are] [made in the same manner as the first entry]			

Illustration 1, One Form of Journal Ruling

Journalizing. (The transactions are recorded chronologically, that is, in the order of their occurrence.) Each transaction is recorded at the time it is completed. The purpose of the entry for each transaction is to state the changes in the assets and proprietorship so that they may be transferred to the accounts. The equation "Assets = Proprietorship" is used as a basis for determining the entries to record the proprietorship at the beginning, and each transaction completed. The explanation should be sufficient to verify the statement of debits and credits.

January 2. L. B. Allen invested \$1500.00 in the flour business.

This investment stated in equation form is:

CASH \$1500.00 = L. B. ALLEN, PROPRIETORSHIP \$1500.00

The facts stated in this equation recorded in account form require a debit to the Cash account for \$1500.00 and a credit to the proprietorship account for the same amount. The illustration at the right

shows the method of stating these same facts in the journal. The debit to the Cash account is

indicated by placing the amount in the first money column and writing the name of the account at the left. The credit to the proprietorship account is indicated by placing the amount in the second money column and writing the title of the account at the left but indented so as to indicate the credit. The explanation should include the necessary information to show that the changes in assets or assets and proprietorship have been correctly interpreted and recorded.

January 2. Paid cash for rent for January, \$50.00.

As this transaction increases the expense and decreases the cash, it is necessary to debit the Expense account and credit the Cash account for \$50.00. The entry made on the page of the journal which contains a record

January 2, 19			
Cash.....	1500 —		
L. B. Allen, Prop.....		1500 —	
Invested \$1500.00 cash			
in the flour business.			
2			
Expense.....	50 —		
Cash.....			50 —
Paid Jan. rent of store.			

of the investment is in the illustration at the left. The date of the second transaction is written in the center of the page on the line below the explanation of the first transaction. This avoids the possibility of overlooking

the debit to Expense when transferring the amounts to the accounts; it also serves to separate the transactions. The name of the month is not repeated.

Jan. 3. Paid \$1,192.50 for 150 barrels of flour at \$7.95.

This transaction increases the purchases and decreases the cash. To record this transaction it is necessary to debit the Purchases account and credit the Cash account. The required entry on the same page of the journal in which the two preceding transactions were recorded is illustrated in the third entry at the right. The debit to the Purchases account records the increase in purchases, and the credit to the Cash account records the increase in the asset cash.

January 2, 19			
Cash.....	1500	—	
L. B. Allen, Prop.....			1500
Invested \$1500.00 cash in the flour business.			
2			
Expense.....	50	—	
Cash.....			50
Paid Jan. rent of store.			
3			
Purchases.....	1192	50	
Cash.....			1192 50
Paid cash for 150 bbls. of flour at \$7.95 per bbl.			

Jan. 5. Received \$746.25 for 75 barrels of flour at \$9.95.

This transaction increases the cash and increases the Sales. To record this transaction it is necessary to debit the Cash account for \$746.25 and credit the Sales account for the same amount. The required entry in journal form on the same page of the journal in which the three preceding transactions were recorded is illustrated in the fourth entry at the left. The debit to the Cash account records the increase in the asset cash, and the credit to the Sales account, the increase in sales.

January 2, 19			
Cash.....	1500	—	
L. B. Allen, Prop.....			1500
Invested \$1500.00 cash in the flour business.			
2			
Expense.....	50	—	
Cash.....			50
Paid Jan. rent of store.			
3			
Purchases.....	1192	50	
Cash.....			1192 50
Paid cash for 150 bbls. of flour at \$7.95 per bbl.			
5			
Cash.....	746	25	
Sales.....			746 25
Received cash for 75 bbls. of flour at \$9.95.			

During the remainder of January, L. B. Allen completed the following transactions:

- 10. Paid \$914.25 for 115 barrels of flour at \$7.95 per barrel.
- 14. Received \$348.25 for 35 barrels of flour sold at \$9.95 per barrel.
- 16. Paid cash for January telephone services, \$4.50.
- 20. Received \$626.85 for 63 barrels of flour sold at \$9.95 per barrel.
- 31. Paid \$86.50, delivery charges on flour sold.

The four transactions illustrated on pages 30 and 31 and the additional transactions given above, are shown recorded in the illustration on page 32.

January 2, 19

Cash	1500 —	
L. B. Allen & Co.		1500 —
Investment in the flour business.		
2		
Expense	50 —	
Cash		50 —
January rent of stores		
3		
Purchases	119250	
Cash		119250
Purchased 150 bbls. flour at \$7.95.		
5		
Cash	74625	
Sales		74625
Sold 75 bbls. flour at \$9.95		
10		
Purchases	91425	
Cash		91425
Purchased 115 bbls. flour at \$7.95		
14		
Cash	34825	
Sales		34825
Sold 35 bbls. flour at \$9.95		
16		
Expense	450	
Cash		450
Telephone services for January.		
20		
Cash	62685	
Sales		62685
Sold 63 bbls. flour at \$9.95.		
31		
Expense	8650	
Cash		8650
Delivery charges on flour sold.		

Illustration 2, Journal

SUMMARY

(The journal contains a chronological record of the transactions completed) The information relative to each transaction includes the date of the transaction, the name of the account debited and amount, the name of the account credited and amount, and the explanation.

(Determining the accounts to be debited and credited and recording the transaction in journal form is referred to as *journalizing*.)

Increases in assets and increases in expense are *debits*.

Decreases in assets and increases in income are *credits*.

Each entry in the journal is an equation. The assets increase the same amount as the assets decrease, the assets increase the same amount as the income increases, or the expenses increase the same amount as the assets decrease.

Should the increase in assets in a transaction be greater than the decrease in assets, the excess is income; if the increase is less than the decrease, the difference is expense or cost.

Exercise 15, Journalizing

(ORAL OR WRITTEN)

State the journal entry necessary to record each of the following cash transactions:

1. January 2. Paid \$50.00 for January rent.
2. May 9. Received \$37.50 for merchandise sold.
3. June 7. Paid \$150.00 for merchandise purchased.
4. July 16. Paid \$20.00 for services of clerk.
5. October 1. D. A. Hall invested \$1,200.00 in the retail shoe business.
6. January 11. Paid \$10.00 for advertising.
7. March 12. Received \$75.00 for merchandise sold.
8. December 16. Paid \$200.00 for merchandise purchased.
9. State as fully as possible the explanation needed to complete the record in the journal for each of the following transactions:

April 1, 19

(a)	Cash	\$1200.00	
	O. C. Day, Prop.		\$1200.00
(b)	1 Rent Expense	20.00	
	Cash		20.00
(c)	2 Purchases	927.65	
	Cash		927.65
(d)	3 Cash	87.50	
	Sales		87.50

April 4, 19

(e)	Cash	\$125.50	
	Sales		\$125.50
(f)	5 Purchases	115.35	
	Cash		115.35
(g)	6 Cash	125.75	
	Sales		125.75
(h)	6 Salary Expense	12.50	
	Cash		12.50

Exercise 16, Journalizing

Journalize the following transactions completed by R. L. Dunn during the month of May; the figures at the left are the days of the month.

1. Invested \$2,500.00 in cash in the retail clothing business.
7. Paid \$1,500.00 for a stock of merchandise.
8. Paid \$100.00 for May rent.
10. Received \$250.00 for merchandise sold.
12. Paid \$15.00 for services of clerk.
18. Received \$215.65 for merchandise sold.
25. Paid \$1.50 for cleaning store.
28. Received \$165.25 for merchandise sold.
31. Paid \$18.50 for services of clerk.

Exercise 17, Journalizing

Journalize the following transactions completed by Miss Alma L. Manley during the first week in June.

1. Miss Alma L. Manley invested \$500.00 in cash in the retail florist business.
1. Paid \$390.50 for stock of flowers.
1. Paid rent for the week, \$15.00.
3. Received \$88.50 for sales of flowers.
4. Received \$106.50 for sales of flowers.
5. Paid \$12.50 for flowers purchased.
6. Received \$25.00 for flowers sold.
6. Paid \$1.00 for delivering the flowers sold today.
6. Paid \$12.50 for services of clerk.

Exercise 18, Journalizing

The equation below, which is similar in form to that at the top of page 8, shows the proprietorship at the beginning of business in the morning and eight transactions completed in one day. The nature of each transaction is indicated by the position and plus or minus signs.

Instructions. Journalize the assets and proprietorship and each of the eight transactions. Use your name as proprietor and the current date. The first expense item was rent and the last one, clerk's salary.

CASH \$2000 + PURCHASES		= PROP. \$2000 + SALES	- EXPENSES
- 1200	..... + \$1200		
- 50	.....		-\$50
+ 250	.....	+ \$250	
- 100	..... + 100		
+ 25	..... - 25		
+ 200	.....	+ 200	
- 22	.....	- 22	
- 18	.....		- 18
CASH \$1085 + PURCHASES \$1275 = PROP. \$2000 + SALES \$428 - EXPENSES \$68			

THE LEDGER, POSTING AND THE TRIAL BALANCE

The Ledger is a group of accounts containing a record of all transactions in account form. The information in each account may be recorded on a card, on a loose sheet punched to fit a binder or on a page in a bound book. The ledger, therefore, may be a group of cards, a number of loose sheets in a binder or a bound book. A book with pages ruled in account form is also referred to as a ledger.

The illustration below shows one form of ledger ruling and the illustration on page 39 a group of accounts composing a ledger. Three vertical lines in the center separate the debits and credits. The use of each column on the left (debit) and right (credit) of this division line is indicated in the illustration below.

TITLE OF THE ACCOUNT											
(Debits)						(Credits)					
Year Mo.	Day	Explanation	Page	Dollars	Cts.	Year Mo.	Day	Explanation	Page	Dollars	Cts
			Book of Orig. Entry						Book of Orig. Entry		

35

Posting from the Journal. (The process of transferring the information recorded in the journal to the accounts in the ledger is referred to as posting.) The purpose of posting is to summarize in the ledger the changes in assets and proprietorship as recorded in the journal.

When all transactions have been posted, the ledger will contain the same information as the journal but in account form. If posted correctly, the sum of the debit balances of the accounts will equal the sum of the credit balances.

Opening an Account in the Ledger. Accounts are usually opened in the ledger as they are needed at the time of posting. The account is opened by writing the title of the account as in the illustration on page 39. It will be observed that the account title is written on a line provided for it and centered so that it will be an equal distance from the left and right sides of the page.

Illustration of Posting. The process of posting is illustrated in the following paragraphs. The journal entries used are the first two in the illustration on page 32. The pages in the folio columns of the journal and ledger refer to the illustrations on pages 38 and 39.

The illustration at the right shows the first journal entry and the results of posting this entry. The amounts were posted in the order stated in the journal, that is, (a) debit entry, and (b) credit entry. The posting was completed in the following manner:

PAGE 38		January 2, 19	
39	Cash	1500	—
39	L. B. Allen, Prop. Invested \$1500.00 cash in the flour business.		1500
PAGE 39		CASH	
19	Jan. 2	38	1500
PAGE 39		L. B. ALLEN, PROP.	
		19	
		Jan. 2	38 1500

(1) The entry on the first line in the journal indicated that the Cash account was to be debited for \$1,500.00. An account was opened in the ledger with Cash and the amount (\$1,500.00), the date (Jan. 2), and the page of the journal (38), were written in the appropriate columns on the debit side. Completion of the posting was indicated in the journal by writing the page (39) of the ledger in the folio column on the line with "Cash".

The page of the journal was written in the folio column of the ledger for reference and the page of the account in the ledger was written in the journal to indicate the posting.

(2) The entry on the second line in the journal showed that the account with L. B. Allen, Prop., was to be credited for \$1,500.00. An account was opened in the ledger with L. B. Allen, Prop., and the amount (\$1,500.00), the date (Jan. 2), and the page of the journal (38) were written in the appropriate columns on the credit side. The posting was indicated in the journal

by writing the page (39) of the ledger in the folio column of the journal on the line with "L. B. Allen, Prop."

The illustration at the left shows the second journal entry in Illustration 2 and the accounts in the ledger after the second entry was posted. The posting

was as follows:

		2			
39	Expense	.....	50	—	
39	Cash	.....		50	—
Paid Jan. rent of store.					
PAGE 39					
CASH					
19	Jan.	2	38	1500	—
19	Jan.	2		38	50
PAGE 39					
L. B. ALLEN, PROP.					
				19	
	Jan.	2		38	1500
PAGE 39					
EXPENSE					
19	Jan.	2	Rent	38	50

(1) An account was opened with Expense and the amount (\$50.00), the date (Jan. 2), and the journal page (38) written in the appropriate columns on the debit side. The posting was indicated by writing "39", the ledger page of the account in the folio column of the journal at the left of "Expense".

(2) The amount (\$50.00), the date (Jan. 2), and the page of the journal (38)

were written on the credit side of the Cash account already opened. The posting was indicated in the journal by writing "39" the page of the ledger in the folio column of the journal at the left of "Cash".

The ledger on page 39 shows the posting of all eutries in the journal on page 32. This journal, after the entries are posted, is shown on page 38. The process of posting each amount was as explained in the previous discussion and in the summary which follows.

SUMMARY OF POSTING

It will be observed from the two illustrations that the posting is completed in the following manner:

- (1) Post the amount of the debit entry. Open the account if it is not already opened in the ledger.
 - (2) Post the date including the year, month and day of the month for the debit entry. The year and month are not written or dittoed if either is in the account as a result of previous posting.
 - (3) Post the page of the book of original entry to the folio column in the ledger.
 - (4) Write the page of the account in the ledger in the folio column on the line with the name of the account in the journal. This shows that the amount has been posted and where it has been posted.
- The credit amount in each entry is posted in the same order as the debit amount: first, the amount; second, the date; third, the page in the journal; and fourth, the page of the ledger to the journal.

January 2, 19

39	Cash	1500 —	
39	L. B. Allen Prop.		1500 —
	Investment in the flour business		
	2		
39	Expense	50 —	
39	Cash		50 —
	January rent of store.		
	3		
39	Purchases	119250	
39	Cash		119250
	Purchased 150 bbls. flour at \$7.95.		
	5		
39	Cash	74625	
39	Sales		74625
	Sold 75 bbls. flour at \$9.95		
	10		
39	Purchases	91425	
39	Cash		91425
	Purchased 115 bbls. flour at \$7.95		
	14		
39	Cash	34825	
39	Sales		34825
	Sold 35 bbls. flour at \$9.95		
	16		
39	Expense	450	
39	Cash		450
	Telephone services for January.		
	20		
39	Cash	62685	
39	Sales		62685
	Sold 63 bbls. flour at \$9.95.		
	31		
39	Expense	8650	
39	Cash		8650
	Delivery charges on flour sold.		

Illustration 4, Journal After Posting

Cash

19					19				
Jan. 2		38	1 500 -		Jan 2		38	50 -	
5		38	746 25		3		38	1 192 50	✓
14		38	348 25		10		38	914 25	
20	773.60	38	626 85		16		38	450	
			322 35		31		38	2 286 50	

L. B. Allen Prop.

19					19				
Jan. 2		38	1 500 -						

Sales

19					19				
Jan. 5		38	746 25						
14		38	348 25						
20		38	626 85						

Purchases

19					19				
Jan. 3		38	1 192 50						
10		38	914 25						

Expense

19					19				
Jan. 2	Rent	38	50 -						
16	Telephone	38	450						
31	Delivery charges	38	86 50						

Illustration 5, Ledger Resulting from Posting Illustration 4

The information written in the explanation column of the Expense account describes the nature of the expense. Separate accounts may be kept with each class of expense if desired as explained on page 21.

Proof. The bookkeeper is interested in knowing that he has followed the directions for posting as indicated by the entries in the journal. Since the debit amount in each journal entry equals the credit amount, it is quite evident that the total debits in the ledger should equal the total credits or the total of the debit balances should equal the total of the credit balances. The method of effecting this proof is through the *Trial Balance*.

Trial Balance. A list of the accounts in the ledger with the total debits and the total credits or the account balance written on the line with the account

is referred to as a Trial Balance. Its purpose is to prove the equality of debits and credits in the ledger. Two columns are provided for amounts, one in which to enter debit totals or debit balances and one in which to enter credit totals or credit balances.

The illustration below shows a Trial Balance with debit and credit totals prepared from the ledger on page 39. This is referred to as a *Trial Balance of Totals*. The sum of the debit totals equals the sum of the credit totals which indicates that the ledger is in balance, that is, the debit amounts equal the credit amounts.

The amounts stated in this Trial Balance are the small figures which show the totals of columns in the ledger. The figures in the column at the left of the account titles are the page in the ledger on which the accounts appear.

L.B. Allen
Trial Balance January 31, 19

39 Cash	322135	224775
39 L.B. Allen Prop.		1500—
39 Sales		172135
39 Purchases	210675	
39 Expense	141—	
	546910	546910

Illustration 6, Trial Balance of Totals

The illustration below is a *Trial Balance of Balances* prepared from the ledger on page 39. With the exception of cash, the amounts are the same as those in the Trial Balance above; the amount on a line with Cash is the difference between the debit total and the credit total. This is the amount shown in small figures in the explanation column on the debit side of the Cash account; if desired, this subtraction may be shown in pencil in the explanation column of the account.

L.B. Allen
Trial Balance January 31, 19

39 Cash	97360	
39 L.B. Allen Prop.		1500—
39 Sales		172135
39 Purchases	210675	
39 Expense	141—	
	322135	322135

Illustration 7, Trial Balance of Balances

Either form of Trial Balance is satisfactory, but since the account balance more often expresses its real meaning, it is better to use the balance of each account when preparing the Trial Balance.

[Unless otherwise instructed, the student will use the balance of each account when preparing a Trial Balance.]

Trial Balance Out of Balance. When the total of the amounts entered in the first column of the Trial Balance does not equal the total of the amounts entered in the second column, the Trial Balance is said to be *out of balance*. A Trial Balance out of balance indicates an error or errors in

- (1) Journalizing;
- (2) Posting;
- (3) Addition and subtraction in the accounts;
- (4) Listing the account balances on the Trial Balance; or
- (5) Addition of the Trial Balance.

To detect the error or errors it will be necessary to check the work; this is usually done in the reverse of the order in which it was first completed.

The Trial Balance will not detect errors in principles. This further emphasizes the importance of understanding the meaning of assets, proprietorship, income and expenses, and the changes in these elements brought about through transactions completed. In other words, the Trial Balance proves only that the ledger is in balance.

Ascertaining Proprietorship. Either Trial Balance illustrated is an equation because the sum of the debit amounts equals the sum of the credit amounts. Neither of these Trial Balances, however, will show an equation in which "Assets = Proprietorship" because the cost of the merchandise sold has not been recorded. Proprietorship and net profit may be ascertained from the account balances on the Trial Balance and the merchandise inventory through equations as illustrated on page 25.

L. B. Allen wishes to ascertain his proprietorship and net profit January 31. It will be necessary to prove the cash and ascertain the merchandise inventory before this information can be secured.

A count of the cash January 31 showed \$973.60. This agrees with the balance of the Cash account as stated on the Trial Balance. The merchandise inventory ascertained by a count is \$862.45.

An equation prepared from either Trial Balance on page 40 is:

$$\text{CASH } \$973.60 = \text{L. B. ALLEN, PROP. } \$1500.00 + \text{SALES } \$1721.35 - \\ \text{PURCHASES } \$2106.75 - \text{EXPENSES } \$141.00$$

The account balances are arranged in the order in which they appear in the ledger on page 39. The Purchases and Expense accounts each have a debit balance which means that if placed on the left side of the equation, they would be indicated by a plus sign or on the right side of the equation by a minus sign.

The following equations in statement form show L. B. Allen's proprietorship, his net profit, and a proof of the proprietorship.

- (1) A statement showing Assets = Proprietorship.

Cash (Cash account)	\$ 973.60
Mdse. Inv. (Flour on hand)	862.45
Assets	<u>\$1836.05 = L. B. Allen, Prop. \$1836.05</u>

- (2) A statement showing profit on sales and net profit.

Sales (Sales account)	\$1721.35
Purchases (Purchases account)	\$2106.75
Less Mdse. Inventory (Flour on hand)	<u>862.45</u>
Cost of Flour Sold	1244.30
Profit on Sales	<u>477.05</u>
Less Expenses (Balance of Expense account)	<u>141.00</u>
Net Profit	<u>336.05</u>

- (3) A statement showing proof of proprietorship.

Beginning Investment (Proprietorship acct.)	\$1,500.00
Net Profit	<u>336.05</u>
Present Proprietorship	<u>\$1,836.05</u>

SUMMARY OF ACCOUNTS

At the beginning of the business, the sum of the balances of the asset accounts equals the balance of the proprietorship account. Transactions produce changes in the nature and amount of the assets and in the amount of the proprietorship. These changes are recorded on the debit and credit sides of the accounts affected.

Increases in assets and increases in expense are *debits*.

Decreases in assets and increases in income are *credits*.

The purpose of the accounts in the ledger on page 39 may be briefly summarized as follows:

The Cash Account is a record of the changes in the asset cash. It is *debited* with the increases, \$3,221.35, and *credited* with the decreases, \$2,247.75. The *debit balance*, \$973.60, is an asset, and is proved by counting the cash.

L. B. Allen, Prop., Account is a record of the investment. It is *credited* with the beginning investment \$1,500.00. The *credit balance* shows the net investment.

The Sales Account is a record of the income through sales. It is *credited* with the increases, \$1,721.35, the selling price of the merchandise sold. The *credit balance* shows the net sales.

When it is desired to ascertain the proprietorship, the cost of sales is deducted from the Sales account to ascertain the profit on sales.

The Purchases Account is a record of the merchandise purchased for sale. It is *debited* with the increases, \$2,106.75, the cost price of merchandise purchased. The *debit balance* shows the net purchases.

When it is desired to ascertain the proprietorship, the value of the merchandise inventory is subtracted from the total purchases to ascertain the cost of sales.

The Expense Account is a record of the expenses of operating the business. It is *debited* for \$141.00, the increases in expenses, because increases in expenses are decreases in proprietorship. The *debit balance* shows the total expense to be subtracted from the profit on sales to ascertain the net profit.

Exercise 19, Posting and Trial Balance

(ORAL OR WRITTEN)

1. How will each of the entries below be posted?

April 1, 19

Cash	900	—		
L. B. Judd, Prop.			900	—
2				
Expense	25	—		
Cash			25	—
3				
Purchases	475	—		
Cash			475	—

April 4, 19

Cash	250	—		
Sales			250	—
5				
Purchases	100	—		
Cash			100	—
6				
Expense	12	50		
Cash			12	50

- If the Sales account shows a balance of \$1,265.50 and the amount is entered on the Trial Balance as a credit of \$1,256.05, what effect will this error have on the Trial Balance?
- R. A. Byer, to whom merchandise was sold for cash, returned a part of the merchandise and \$2.00 cash was paid him for it. Through error, the bookkeeper debited the Purchases account. (a) What effect will this error have on the total debit column and the total credit column of the Trial Balance? (b) What effect will it have on the balances of the Purchases and Sales accounts?
- The Expense account shows a balance of \$22.50. This is listed on the Trial Balance in the credit column. What effect will the error have on the Trial Balance?
- Cash, \$10.16, was paid for expenses and recorded in the journal shown at the right. What effect would it have on the Trial Balance if the bookkeeper failed to post (a) the debit entry? (b) the credit entry? (c) both the debit and credit entries?

Expense	10	16		
Cash			10	16

6. The bookkeeper for a local drug store which does a cash business counts cash at the end of the day and finds there is \$1.00 more cash on hand than shown by the balance of the Cash account. (a) What effect will this error have on the Trial Balance? (b) What are some of the reasons for an error of this kind?
7. How does the bookkeeper prove the balance of the Cash account?
8. (a) What is the purpose of the Trial Balance? (b) What does it prove?
9. If the two sides of the Trial Balance are not equal, how may the bookkeeper detect the error?
10. May 31, the balance of the Purchases account is \$1,485.60, the balance of the Sales account is \$2,355.40, and the merchandise inventory ascertained by count is \$125.00. (a) What is the cost of goods sold? (b) What is the profit on sales?

Exercise 20, Journalizing, Posting and Trial Balance

Journalize the following transactions, completed by L. J. Craig during the month of May:

1. L. J. Craig invested \$1,200.00 in the office supplies business.
2. Paid rent for May, \$65.00.
3. Paid cash for merchandise purchased, \$651.50.
5. Received cash for sales of merchandise, \$216.40.
7. Received cash for merchandise returned to the one from whom it was purchased, \$21.65.
14. Paid cash for merchandise purchased, \$213.00.
15. Received cash for sales of merchandise, \$327.50.
16. Paid cash to clerk for salary to date, \$37.50.
21. Paid A. C. Day \$2.50 for merchandise which he returned.
31. Received cash for sales of merchandise, \$265.55.
31. Paid the clerk \$37.50, salary for the second half of the month.

A count of the cash showed a balance of \$1,024.10; the value of the merchandise ascertained by taking stock was \$335.75.

Instructions. (1) Post the journal entries (allow ten lines for each account), and take a Trial Balance. The accounts should be arranged in the same order as in the ledger on page 39.

(2) Prepare statements showing (a) the present proprietorship, (b) net profit, and (c) proof of proprietorship in the same form as shown on page 42.

Exercise 21, Posting and Trial Balance

The journal in the illustration on page 45 contains a record of the transactions completed by A. H. Cowen, a retail clothing merchant. Post to accounts

with Cash (10), A. H. Cowen, Prop. (4), Sales (6), Purchases (6) and Expense (5); the figures in parenthesis indicate the number of lines required for the account. Enter the page of the text (45) in the folio column of the ledger but do not enter the page of the ledger in the folio column of the journal unless instructed to do so. Take a Trial Balance.

October 1, 19

Cash.....	2500 —	
A. H. Cowen, Prop.....		2500 —
Investment in the retail clothing business.		
2		
Expense.....	75 —	
Cash.....		75 —
Paid October rent.		
5		
Purchases.....	846 50	
Cash.....		846 50
Paid cash for merchandise purchased.		
8		
Cash.....	180 —	
Sales.....		180 —
Received cash for merchandise sold.		
13		
Purchases.....	275 80	
Cash.....		275 80
Paid cash for merchandise purchased.		
15		
Purchases.....	8 45	
Cash.....		8 45
Paid cash for merchandise purchased.		
18		
Cash.....	327 50	
Sales.....		327 50
Received cash for merchandise sold.		
22		
Sales.....	12 50	
Cash.....		12 50
Paid cash for merchandise returned.		
26		
Cash.....	165 40	
Sales.....		165 40
Received cash for merchandise sold.		
29		
Sales.....	2 50	
Cash.....		2 50
Paid cash for merchandise returned.		
31		
Expense.....	85 —	
Cash.....		85 —
Paid clerk for October services.		

Exercise 22, Journalizing from the Ledger

March 1, Martin L. Dailey invested \$2,000.00 in the retail furniture business. His investment and the eleven transactions completed during the month of March are shown recorded in the following ledger:

CASH

19					19				
Mar.	1		1	2000	—	Mar.	2	1	90
	8		1	371	50		3	1	1650
	10		1	11	75		5	1	18 75
	12		1	65	—		15	1	50
	18		2	292	50		27	2	5 50
	25		2	350	50		30	2	50

MARTIN L. DAILEY, PROP.

19					19				
Mar.	1				Mar.	1		1	2000

SALES

19					19				
Mar.	27	Return	2	5 50	Mar.	8	1	371	50
						12	1	65	—
						18	2	292	50
						25	2	350	50

PURCHASES

19					19				
Mar.	3		1	1650	—	Mar.	10	Return	1 11 75
	5	Freight	1	18	75				

EXPENSE

19									
Mar.	2	Rent	1	90	—				
	15	Salaries	1	50	—				
	30	Salaries	2	50	—				

Instructions. (1) Record in journal form the same information shown in this ledger, arranging the transactions in the order of their completion, beginning with March 1. For example, the transaction of March 1 requires an entry in which Cash is debited and Martin L. Dailey, Prop., is credited for the investment; the transaction of March 2, an entry in which Expense is debited and Cash is credited because of payment of cash for March rent; the transaction of March 3, an entry in which Purchases is debited and Cash credited because of cash paid for merchandise purchased; the transaction of March 5, an entry in which Purchases is debited and Cash credited because of payment of freight, etc.

(2) The cash on hand is \$1,227.00; prove this to be correct by comparing it with the balance of the Cash account.

(3) Take a Trial Balance.

CHAPTER V

SALES FOR CASH AND ON CREDIT

The discussion in the preceding chapters referred to the information needed by the owner when cash is received for all merchandise sold at the time of the sale. When cash is not received at the time of the sale, additional information is needed. The nature of this additional information and the method of securing it are discussed in this chapter.

Sales on Credit. There are two principal methods of selling; (a) for cash, and (b) on credit. When cash is received at the time the sale is made, the transaction is referred to as a *cash sale*. When cash is not received for the merchandise sold at the time of the sale, but instead is to be received later, the transaction is referred to as a *charge sale*, a *sale on credit* or a *sale on account*.

The one to whom merchandise or service is sold is referred to as a *customer*. The customer from whom cash is received at the time of the sale is a *cash customer*; the customer from whom cash is received at a date later than the date of the sale is referred to as a *charge customer*.

When a charge sale is made, a definite time for collection is expressed or implied. With retail merchants the implied time is usually the first of the month following the date of the sale. With a wholesale merchant the time is usually stated in definite terms, that is, a designated number of days after the date of the sale. Thus, a sale made by a retail merchant on April 17 will be due May 1; a sale made by a wholesale merchant on April 14 with terms "30 days" will be due May 14.

Information Needed in Connection with Charge Sales. When cash is received from a customer at the time the sale is made, it is not necessary to record the name of the customer because the exchange of merchandise for cash completes the transaction.

When the customer takes the merchandise and agrees to pay for it in the future, it is necessary to record (a) the date of the sale, (b) his name and address, (c) a description of the article or articles sold, (d) the amount of the sale, and (e) the terms.

When cash or other assets are received from a charge customer for part or all of his indebtedness, it will be necessary to record the date, his name, and the amount of cash or other assets received.

The information regarding charge sales referred to in the preceding paragraphs may be obtained through an account with each charge customer. The record of the transactions with a charge customer must be such that the balance of his account will show the amount he owes and the due date of each sale. The title of the account will be the name and address of the charge customer.

An account with a charge customer is referred to as an *account receivable*. It is an asset since it has a definite cash value and will later be exchanged for the asset cash. The sum of the balances of all accounts with charge customers is known as the asset *Accounts Receivable*.

Recording Cash and Charge Sales. A cash sale results in an increase in the asset cash and an increase in the income sales, hence requires a debit to the Cash account and a credit to the Sales account.

A charge sale results in an increase in the asset accounts receivable and an increase in the sales, hence requires a debit to the account with the charge customer (an asset) and a credit to the Sales account.

Cash or other assets received from a charge customer for a part or all of his account constitute an exchange of one asset for another of equivalent value. Cash or the asset account which records the increase is debited and the account with the charge customer credited.

March 1. R. L. Haynes, a retail dealer in trunks and bags,
has the following assets which are used in his business:
Cash \$1,000.00, trunks and bags in stock \$650.00.

Stated in equation form his assets and proprietorship are:

CASH \$1000.00 + MDSE. INVENTORY \$650.00 = R. L. HAYNES, PROP. \$1650.00

The illustration at the right shows the facts stated in this equation recorded in journal form.

The reason for the debits and credit has been previously explained. A journal entry with more than one debit or more than one credit is referred to as a *compound journal entry*.

March 1, 19				
50	Cash.....	1000	—	
50	Mdse. Inventory.....	650	—	
50	R. L. Haynes, Prop.....			1650
	Assets owned by the business on this date.			

March 7. Sold R. C. Dunn, 200 Main St., City, one trunk
\$30.00 and one bag \$12.00; terms, 10 days.

This transaction increases the asset accounts receivable (R. C. Dunn) and increases the sales, \$42.00. The journal entry to record the transaction

50	R. C. Dunn, 200 Main St. . .	42	—		is in the illustration at the left. The account with R. C. Dunn is deb- ited to record the in- crease in assets and the
50	Sales.....			42	
	Sold 1 trunk, \$30.00; 1 bag, \$12.00; terms 10 days.				

Sales account credited to record the increase in the sales.

March 8. Received \$75.00 in cash from Miss Annie Bates for a wardrobe trunk sold her today.

This is a cash sale, hence results in an increase in the asset cash and an increase in the sales. The illustration at the right shows the journal entry for recording this transaction. The Cash account is debited to record the increase in the asset cash and the Sales account credited to record the increase in sales. The name of the customer is not recorded on the ledger because it is a cash sale.

			8				
50	Cash.....			75	—		
50	Sales.....					75	—
	Sold 1 wardrobe trunk for cash.						

March 10. R. C. Dunn returned the bag sold him on the 7th and was allowed a credit of \$12.00, the sale price.

The amount R. C. Dunn owes the business is reduced by \$12.00; hence, this transaction results in a decrease in the asset accounts receivable (R. C. Dunn) and a decrease in the sales. The illustration at the left shows the journal entry for recording this transaction. The Sales account is debited to indicate the subtraction in the Sales account. The account with R. C. Dunn is credited to show the subtraction in his account.

			10				
50	Sales.....			12	—		
50	R. C. Dunn.....					12	—
	Returned bag bought on 7th and allowed credit for sale price.						

March 11. Sold R. C. Dunn, one bag, \$32.50; terms, 30 days.

This transaction increases the asset accounts receivable (R. C. Dunn) and increases sales the same amount. The illustration at the right shows the journal entry for recording this transaction. The debit to R. C. Dunn's account records the increase in the asset accounts receivable and the credit to the Sales account, the increase in sales.

			11				
50	R. C. Dunn.....			32	50		
50	Sales.....					32	50
	Sold 1 bag, \$32.50; terms 30 days.						

March 17. Received \$30.00 cash from R. C. Dunn in payment of the balance due on the sale of March 7.

This transaction increases the asset cash and decreases the asset accounts receivable (R. C. Dunn). The illustration at the left shows the journal entry for recording the transaction. The Cash

			17				
50	Cash.....			30	—		
50	R. C. Dunn.....					30	—
	Received cash for balance due on sale of March 7.						

account is debited to record the increase in the asset cash and the account with R. C. Dunn is credited to record the decrease in the amount to be collected from him.

The Ledger at the right shows the results of posting the six journal entries on pages 48 and 49. The account with R. C. Dunn shows (a) his name and address, (b) two sales, one on the 7th and the other on the 11th, (c) terms on each sale, (d) page of the book of original entry for reference if the items sold to him are desired, (e) return of a part of the merchandise with page of the journal if a description of the article returned is desired, and (f) collection of balance due on sale of March 7.

The account with a charge customer is ruled at the point where it balances on the same blue line on each side as explained on page 55. In the illustration at the right, it is not possible to rule the line exactly opposite because two collections equal one charge, and a second charge was entered before the final collection.

The account with a customer should contain all the information needed by the one who is authorized to extend credit to him, with page references for additional information if desired. The charge customer who pays his obligations in accordance with the terms will establish a good *credit rating*.

A Trial Balance prepared from the account balances in the above ledger is in the illustration at the right. This Trial Balance shows that the sum of the debit balances of the accounts in the ledger is equal to the sum of the credit balances.

CASH									
19									
Mar.	1		48	1000	—				
	8		49	75	—				
	17		49	30	—				
				1105					
R. C. DUNN 200 Main St., City									
19						19			
Mar.	7	10 da.	48	42	—	Mar.	10	Ret.	49 12 —
	11	30 da.	49	32	50		17		49 30 —
MERCHANDISE INVENTORY									
19									
Mar.	1		48	650	—				
R. L. HAYNES, PROP.									
						19			
						Mar.	1		48 1650 —
SALES									
19						19			
Mar.	10	Ret.	49	12	—	Mar.	7		48 42 —
							8		49 75 —
							11	137.50	49 32 50
									149 50
R. L. HAYNES TRIAL BALANCE, March 17, 19									
50	Cash.....					1105	—		
50	R. C. Dunn.....					32	50		
50	Merchandise Inventory....					650	—		
50	R. L. Haynes, Prop.....							1650	—
50	Sales.....							137	50
						1787	50	1787	50

The account balances on this Trial Balance may be stated in equation form, but the equation will not show "Assets = Proprietorship" because the cost of sales has not been recorded.

If the cash on hand proves with the cash record and the value of the merchandise inventory, March 17, is \$600.00, the following statements may be prepared from the account balances on the Trial Balance and the merchandise inventory. These three statements provide present proprietorship, net profit, and proof of the proprietorship.

- (1) A statement showing "Assets = Proprietorship":

Cash.....	\$1105.00	
Accounts Receivable.	32.50	
Mdse. Inventory	600.00	
Total Assets.....	\$1737.50	= R. L. Haynes, Prop., \$1737.50

- (2) A statement showing profit on sales and net profit.

Sales (Trial Balance).....	\$ 137.50
Merchandise Inventory (Trial Balance) ...	\$650 00
Less Merchandise Inventory 3/17.....	600.00
Cost of Merchandise Sold.....	50.00
Profit on Sales.....	87.50

There were no purchases, hence the cost of sales is the difference between the beginning and ending inventories.

- (3) A statement showing proof of proprietorship.

R. L. Haynes, Beginning Proprietorship.....	\$1650.00
Profit.....	87.50
R. L. Haynes, Present Proprietorship.....	\$1737.50

Exercise 23, Sales for Cash and on Credit

(ORAL OR WRITTEN)

1. "Received cash \$55.00 for merchandise sold." State the journal entry required to record this transaction using the current date.

2. "Sold J. L. Way on credit 3 gallons floor varnish @ \$2.25 per gallon." State the journal entry required to record this transaction.

3. "L. B. Johnson, a charge customer, returned to us merchandise, \$2.50." State the journal entry required to record this transaction.

4. How will the amounts in the equation below appear in the accounts?

$$\text{CASH } \$250.00 + \text{C. H. LAY } \$50.00 + \text{PURCHASES } \$300.00 = \text{A. J. KNIGHT, PROP. } \$350.00 + \text{SALES } \$300.00 - \text{EXPENSE } \$50.00$$

5. (a) What entry in the journal was required to record the debit and credit shown in the two accounts at the right? (b) Is L. B. Johnson a charge customer or a cash customer? (c) How much does L. B. Johnson owe?

L. B. JOHNSON										City
19										
Oct.	5		12	37	85					
SALES										
						19				
						Oct.	5		12	37 85

6. (a) What entry in the journal was required to record the debit to the Cash account and credit to the account with S. B. McGuire in the illustration at the left? (b) What effect does this transaction have on the assets and income?

CASH									
19									
July	5		9	55	85				
S. B. McGUIRE								City	
19									
June	25		7	55	85	19	5	9	55 85

Exercise 24, Journalizing, Posting and Trial Balance

- Walter Marx completed the following transactions during September.
- 1. Invested \$2,500.00 in cash in the retail hardware business.
 - 2. Paid September rent, \$110.00.
 - 3. Paid \$1,850.00 for merchandise.
 - 10. Paid \$112.50 for merchandise.
 - 12. Sold R. L. David, 410 Spring St., City, on credit, 10 kegs of nails, \$46.00.
 - 13. Received \$625.20 for cash sales to date.
 - 15. Paid \$65.00 for services of clerks.
 - 15. Sold Arthur Moore, 219 Long St., City, on credit, 1 dozen Yale locks at \$1.25 each; 1 hatchet, 90c; 1 keg of nails, \$4.25.
 - 18. Received cash from R. L. David in full for sale of Sept. 12.
 - 20. Gave Arthur Moore credit for 90c, one hatchet returned by him.
 - 23. Sold Doyle Construction Co., Danville, on credit, 3 dozen picks at \$7.50 per doz., 1 dozen shovels, \$17.50, and 25 kegs of nails at \$4.10 per keg.
 - 26. Received \$19.50 cash for merchandise returned to the seller by agreement.
 - 29. Received cash for one-half of the sale to Doyle Construction Co., Sept. 23.
 - 30. Received \$531.25 for cash sales to date.
 - 30. Paid \$65.00 for services of clerks.

Instructions. (1) Record each of these transactions in the journal and post. Arrange the accounts as illustrated on page 50; allow nine lines for Cash, eight lines for Sales, and five lines for each of the other accounts.

(2) Prove cash; balance on hand, \$1,590.70; and take a Trial Balance.

(3) Prepare statements showing proprietorship, net profit, and proof as illustrated on page 51; merchandise inventory, \$1,132.55.

Note Receivable. [A written promise received from a charge customer for a part or all of his indebtedness as shown by his account is referred to as a *note receivable*.] The one who signs the note is referred to as the *maker*, and the one to whom it is payable, as the *payee*. The date the note is due is referred to as the *maturity* of the note.

A note receivable is an asset for in it the charge customer promises to pay cash at a future time. The note receivable, therefore, has a definite value to the business. Its asset value is ordinarily considered to be the amount promised by the debtor, that is, the amount stated in the note. This amount is referred to as the *face value* of the note. The sum of the face value of all notes receivable belonging to the business is the asset *Notes Receivable*.

[The usual purpose of a note receivable is to allow additional time for collection of the amount due from the charge customer.] The discussion of notes receivable in this chapter relates to transactions with charge customers. Notes received and given for other purposes will be explained later.

Recording a Note Receivable. When a note receivable is received from a charge customer, the transaction results in an increase in the asset notes receivable and a decrease in the asset accounts receivable. An account with the title Notes Receivable is debited for the *face of the note* to record the increase in the asset notes receivable. The account with the charge customer is credited to record the decrease in the asset accounts receivable.

Receiving a note from a charge customer does not cancel the amount to be collected from him but only extends the time for making collection. It changes the nature of the asset from accounts receivable to notes receivable. When cash is received from a charge customer for the face value of the note, the transaction results in an increase in the asset cash and a decrease in the asset notes receivable. When cash is received for the note, the note is marked "Paid" and returned to the charge customer.

May 15. David B. Russell, a retail merchant, received from
L. A. Burns, a charge customer, a note receivable for
\$185.63.

The note receivable referred to in this transaction is in the illustration at the right. L. A.

Burns, the charge customer, promises to pay \$185.63 in 30 days. This promise is made May 15, hence will be due June 14. L. A. Burns still owes the amount,

but the debt is now in the form of a written promise, and is payable, not necessarily to David B. Russell, but to the person owning the note when it is due.

\$185.63	Concinnati	May 15, 19
Thirty days after date I promise to pay to		
the order of David B. Russell		
One hundred eighty five ¹⁶ / ₁₀₀ Dollars		
Payable at City National Bank		
Value received with interest at - %		
No	Due June 14, 19	L. A. Burns

The three illustrations at the right marked (a), (b), and (c) show the following information:

(a) The account with L. A. Burns.

		L. A. BURNS		132 Second St.	
19					
May	1	45	150	—	
	9	45	35	63	

(b) The journal entry to record the increase in the asset notes receivable and the decrease in the asset accounts receivable.

		May 15, 19			
54	Notes Receivable.....		185	63	
54	L. A. Burns.....				185 63
	Received 30-day note in full of account.				

(c) The Notes Receivable account and the account with L. A. Burns after the journal entry of May 15 has been posted.

		NOTES RECEIVABLE			
19					
May	15 30 da.	54	185	63	

The account with L. A. Burns is now in balance and the asset is recorded in the Notes Receivable account.

		L. A. BURNS		132 Second St.	
19					
May	1	45	150	—	
	9	45	35	63	

When cash is received for a note receivable, the transaction results in an increase in the asset cash and a decrease in the asset notes receivable.

		June 14, 19			
54	Cash.....		185	63	
54	Notes Receivable.....				185 63
	Received cash for note due today.				

		CASH			
19					
June 14		54	185	63	

		NOTES RECEIVABLE			
19					
May 15 30 days	54	185	63	June 14	54 185 63

below the journal entry show the result of posting. The Notes Receivable account is ruled because the two sides of the account are equal.

Combined Cash and Credit Sale. When merchandise is sold to a charge customer and cash is received for a part of the sale, the remainder to be collected at a subsequent date, the transaction is usually recorded in two entries. These are described at the top of page 55.

- (1) An entry to record the full amount of the sale as a debit to the account with the charge customer and a credit to Sales.
- (2) An entry to record the receipt of cash as a debit to the Cash account and a credit to the account with the charge customer.

May 5. Sold A. C. Collins, 415 Ross St., City, merchandise per sale No. 63, \$125.75; terms, cash \$50.00; balance 10 days.

The journal entries at the right show the method of recording the transaction by two separate entries. The first entry records the sale and the second entry records the cash received. The accounts below the journal entries show the posting. The balance of the account with the charge customer shows the amount to be collected from him within ten days. If desired, "Cash \$50.00, balance 10 days" may be written in the explanation column on the debit side.

May 5, 19									
55	A. C. Collins, 415 Ross St..	125	75						
55	Sales.....							125	75
	Sale No. 63; terms, cash, \$50.00; balance, 10 days.								
	5								
55	Cash.....	50	—						
55	A. C. Collins.....							50	—
	Received cash in part payment for sale of today.								
CASH									
19	May	5		55	50	—			
A. C. COLLINS 415 Ross St., City									
19	May	5	10 da	55	125	75	19	May	5
								55	50
									—
SALES									
							19	May	5
								55	125
									75

Ruling an Account with a Customer. When the one amount or the sum of the amounts recorded on the credit side of an account with a customer equals the one amount or the sum of the amounts recorded on the debit side, the account is *in balance*. This fact is indicated by ruled lines.

The illustration at the right shows one form of ruling frequently used when cash or some other asset is received from a customer in payment of one or more sales. It

will be observed that when possible the lines are ruled without moving the ruler. Where the cash received from a charge customer is for more than one sale, the two or more amounts on the debit side are added to verify the entry on the opposite side. Ruling an account which is not in balance would cause much trouble when a Trial Balance is taken.

M. L. Connor 127 Main St., City

Jan 15	89.35	9	89.35	Feb 1	18	89.35
Feb 5		20	37.35	Mar 1	37	63.75
20	63.75	31	26.42			
Mar 9		42	72.16	9	46	50
20	81.76	47	59.60	Apr 1	53	25
Apr 5		57	12.55	10	54	56.46
				12	62	126.5
Apr 25		65	13.42			

The figures in the explanation column indicate the amounts used on the January, February, and March Trial Balances. The last figure on the debit side is the amount used on the April 30 Trial Balance. The ruled lines make it unnecessary for the items above them to be considered when the account is footed for future Trial Balances.

The illustration below shows another form of ruling for an account with a charge customer. This form is usually employed where the account is balanced

J. J. Korner Uniontown

Jan 1	91	647	Aug	21	75 -
12	23	1892	15	81	3075
27	56	5583	Sept 1	17	2550
Aug 16	30	1421			
29	39	3782			
		14325			4325

after a number of amounts have been recorded on the debit and credit sides. The ruling is placed on the same line on each side and the footings on each side are entered between single

and double lines. Single lines are drawn across the money columns only; double lines are drawn across all except the explanation columns. This form of ruling is frequently used when an account is *balanced* and the balance carried down on the same page or carried forward to a new page in the ledger.

SUMMARY

Account with a Charge Customer. The title of the account with each charge customer is his name and address. The purpose of the account with each charge customer is to record the transactions with him.

Since accounts receivable are assets, the account with each charge customer is *debited* for increases and *credited* for decreases.

The *debit* balance is an asset because it is the amount to be collected from the charge customer. The sum of all the debit balances to be collected from charge customers is the asset accounts receivable.

The Notes Receivable Account is a record of the changes in the asset notes receivable.

The Notes Receivable account is *debited* for increases (face of each note receivable) and *credited* for decreases.

The *debit* balance is the asset notes receivable and agrees with the value of the notes owned by the business.

Exercise 25, Accounts and Notes Receivable

(ORAL OR WRITTEN)

1. "May 16. Received from E. L. Lamb a 60-day note for \$187.50 in full of account." How will this transaction be recorded in the journal?
2. "Received from E. L. Lamb \$187.50 for note due today." (a) On what date (see Question 1) will this transaction be recorded? (b) How will it be recorded in the journal?

3. State the two journal entries required to record the following transaction:
 "Sold Robert McFarland 25 bags of Portland Cement at \$1.00 per bag, 3 yards of sand at \$3.00 per yard, and 1 yard of gravel \$4.00. Received cash \$20.00, balance to be paid in 10 days."
4. What would be the journal entry to record the facts shown in the accounts at the right?
- | A. ISAACS | SALES |
|-----------|-------|
| 89.60 | 89.60 |
5. What effect would it have on the Trial Balance if the following transaction is not recorded: "Sold B. C. Adams on 30 days time, 1 No. 7 Eureka Washing Machine, \$52.50"?
6. When and how would the bookkeeper discover the error resulting from the failure to record this transaction?
7. Can you suggest some plan which would avoid the possibility of failing to record a charge sale in a retail grocery business where many such sales are made?
8. When and how would the bookkeeper discover the error resulting from failure to record the following transaction: "Received cash for the sale of 1 pair of shoes, \$5.00"?
9. (a) When is the account with a customer in balance? (b) How does the bookkeeper indicate this?
10. A. W. Mott, a retail clothing merchant, wishes to write his customers about a bargain sale. How will he ascertain the addresses of (a) the charge customers? (b) the cash customers?

Exercise 26, Recording Transactions, Posting and the Trial Balance

During the month of February, A. B. Wilson, a retail furniture merchant, completed the following transactions:

1. Invested \$3,500.00 in cash in the furniture business.
1. Paid \$1,700.00 in cash for merchandise purchased.
1. Paid rent for February, in cash, \$100.00.
3. Sold C. H. Powers, 211 Walnut St., City, on credit, 1 bedroom suite, \$225.00.
7. Sold Walter Rogers, Oakdale, on credit, 1 hatrack, \$32.50.
9. Received \$625.50 for cash sales.
18. Received from C. H. Powers \$125.00 in cash and a note due in ten days for \$100.00 in full for sale of the 3d.
21. Received \$32.50 in cash from Walter Rogers in full of account
22. Paid \$300.00 in cash for merchandise purchased.
25. Sold A. R. David, City, on credit, 1 dining room suite, \$350.00. Received \$50.00 in cash; balance, 30 days.
28. Sold C. H. Powers, on credit, 3 rockers @ \$27.50. Received \$50.00 in cash to apply on this sale; balance, 30 days.

The "@" indicates that the price applies to each rocker and that the amount of the sale is three times \$27.50.

28. Received from C. H. Powers, \$100.00 in cash for note due today.

This note would be similar in form to the one illustrated on page 53.

28. Received from A. R. David a 30-day note for \$300.00 in full of account.

28. Paid \$125.00 for February salaries.

Instructions. (1) Record each transaction in the journal.

(2) Post to accounts with Cash (10), Notes Receivable (5), C. H. Powers (5), Walter Rogers (4), A. R. David (4), A. B. Wilson Prop. (4), Sales (8), Purchases (5) and Expense (4). The figures in parentheses are the number of lines required for each account.

(3) Prove cash balance, \$2,258.00, and take a Trial Balance.

(4) Prepare equations similar to those on pages 42 and 51; merchandise inventory, \$1,475.25.

Exercise 27, Transactions With a Customer

The Electric Shop completed the following transactions with A. N. House, 213 Broadway, City, a charge customer, during the months of July and August. Unless otherwise indicated, the terms of the sales are "on account".

July 2. Sold 1 electric percolator, \$7.50; 1 flashlight, \$2.75.

5. Allowed Mr. House credit for \$2.75, sale price of the flashlight which he returned. Sold him an electric fan for \$22.50.

10. Sold 1 electric washing machine, \$162.50; received cash, \$62.50; balance to be paid in 20 days.

16. Sold 1 electric iron, \$6.50; 1 electric toaster, \$4.20.

30. Received \$50.00 in cash and a 15-day note for \$50.00, balance due on sale made July 10.

31. Received \$40.70 in cash in full of account.

Aug. 12. Sold 1 chandelier, \$25.00; 10 lamp shades @ 75c; 10 lamps @ 35c.

14. Received \$50.00 in cash for note due today.

20. Sold 200 ft. No. 10 wire, \$1.00; 1 vacuum cleaner, \$69.50.

26. Received \$36.00 in full for sale of August 12.

28. Sold 1 clothes drier, \$125.00. Received cash, \$50.00; balance 30 days.

Instructions. (1) Record the July transactions in the journal and post to accounts with Cash (9), Notes Receivable (4), A. N. House (10), and Sales (8). Rule A. N. House's account as in the illustration on page 56. Take a Trial Balance.

(2) Record the August transactions in the journal and post to the same accounts that you opened for July. Rule the accounts where they balance as in illustration on page 55. Take a Trial Balance.

CHAPTER VI

PURCHASES FOR CASH AND ON CREDIT

When one person sells merchandise on credit, obviously the one with whom he is dealing buys on credit. The discussion in this chapter relates to the purchase of merchandise on credit and the accounts needed to record the desired information.

Liability. The proprietor's promise to pay a certain amount, usually in cash, at some time in the future is known as a *liability*. The promise may be implied, verbal or written. One may incur a liability through an implied contract, later confirm it by a verbal contract, and still later make it more definite by a written contract, but the liability exists equally in all three cases. A liability may be paid with property other than cash, but the usual custom is to pay with cash at the time agreed upon.

Reason for Liabilities. A liability is usually incurred to secure additional assets needed in the operations of a business. The owner of the business has three means of securing assets, (a) through investment, (b) through incurring a liability by borrowing money, and (c) through incurring a liability by purchasing merchandise or other property with the understanding that it is to be paid for in the future. When the need for additional assets is only temporary, it is customary to secure these assets through borrowing or purchasing on credit.

Effect of Liabilities on Assets and Proprietorship. When one increases his assets by incurring liabilities, he has not increased his wealth nor his proprietorship since it is necessary for him to pay his liabilities in the future. The total assets, therefore, equal the proprietorship plus the amount owed. This may be shown by the equation:

$$\text{ASSETS} = \text{LIABILITIES} + \text{PROPRIETORSHIP}$$

The above equation is simply an expansion of the equation, assets = proprietorship. The creditors have a claim against the assets of the owner, hence the amount of all the assets equals the claims of creditors plus the owner's proprietorship.

Since liabilities are to be paid out of the assets, the equation is sometimes expressed as:

$$\text{ASSETS} - \text{LIABILITIES} = \text{PROPRIETORSHIP}$$

The final results are the same in either equation. The owner's proprietorship is his equity in the assets which is the same whether the claims of creditors are subtracted from the sum of the assets or added to the proprietorship.

Purchases on Credit. When merchandise or other property is purchased by the owner of the business but payment is not made until a subsequent date, the purchase is said to be *on credit* or *on account*. The one from whom the purchase is made is referred to as a *creditor*. The terms of payment are agreed upon, usually in the same manner as explained in connection with charge sales on page 47.

When a purchase is made on account, it is necessary to record (a) the date of the purchase, (b) the name and address of the creditor, (c) information regarding the property purchased, (d) the amount of the purchase, and (e) the terms. When cash is paid a creditor in accordance with the terms, it is again necessary to record the date, the name of the creditor, and the amount of cash paid. The purchase increases the liability and the cash payment decreases the liability.

The information needed regarding liabilities because of purchases on account, like all other accounting information, is provided through an account with each creditor. The title of each account is the name and address of the creditor. The account with each creditor is a liability. The sum of the account balances with all creditors is the liability *accounts payable*.

With full information regarding his liabilities, the owner can take the proper steps to secure the assets with which to pay them and thus maintain a good *credit rating*.

Recording Purchases on Credit. A purchase of merchandise on credit increases the asset merchandise. It does not increase the proprietorship but instead the liabilities. The two sides of the equation "Assets = Liabilities + Proprietorship" are, therefore, increased equally. The Purchases account is debited to record the increase in assets and the account with the creditor credited to record the increase in liabilities.

When cash is paid to a creditor, the transaction involves the decrease of an asset and the decrease of a liability. Cash is credited to record the decrease in the asset cash and the account with the creditor is debited to record the decrease in the liability accounts payable.

June 1. L. S. Cole invested \$600.00 cash in the produce business.

This investment is stated in equation form as follows:

CASH \$600.00 = L. S. COLE, PROPRIETORSHIP \$600.00

The illustration at the right shows the facts in this equation recorded in journal form. The debit to the Cash account shows \$600.00 cash on hand at the beginning of business. The credit to the proprietorship account shows that L. S. Cole's proprietorship is \$600.00.

June 1, 19				
62	Cash.....	600	—	
62	L. S. Cole, Prop.....			600
	Invested cash in the produce business.			

June 2. Paid \$250.00 in cash for produce purchased.

This transaction increases the asset merchandise and decreases the asset cash, each \$250.00.

The illustration at the right shows the journal entry for recording this transaction. The Purchases account is debited to record the increase in the purchases and the Cash account is credited to record the decrease in the asset cash.

		2		
62	Purchases.....	250	—	
62	Cash.....			250
	Bought produce for cash.			

June 4. Purchased from the Central Produce Company, Ashland, on credit, produce, \$450.00.

This transaction increases the purchases and increases the liability accounts payable, each \$450.00.

The illustration at the left shows the transaction recorded in journal form. The Purchases account is debited to record the increase in purchases thus adding the \$450.00 to the previous purchase.

		4		
62	Purchases.....	450	—	
62	Central Produce Co., Ashland			450
	Bought produce on credit.			

The account with the Central Produce Company is credited to record the liability accounts payable.

June 8. Returned to the Central Produce Company \$50.00 worth of the produce purchased on June 4.

This transaction decreases the liability accounts payable because L. S. Cole now owes the Central Produce Company \$50.00 less; the transaction also decreases the purchases \$50.00.

The illustration at the right shows this transaction recorded in journal form. The account of the Central Produce Company is debited because the amount is to be subtracted from the indebtedness due this firm as recorded on the credit side of their account. The Purchases account is credited because this amount is to be subtracted from purchases.

		8		
62	Central Produce Co.....	50	—	
62	Purchases.....			50
	Returned part of produce purchased on June 4.			

June 9. Purchased from Staples & Lake, City, on 20 days' time, produce, \$200.00.

This transaction increases the purchases and increases the liability accounts payable, each \$200.00.

The illustration below shows this transaction recorded in journal form. The Purchase account is debited to record the increase in the asset merchandise; the account with Staples & Lake is credited to record the increase in the liability accounts payable.

	9			
62	Purchases	200 —		
62	Staples & Lake, City		200 —	
	Purchased on 20 days time.			

June 30. Paid the Central Produce Company \$300.00 on account of purchase of the 4th.

This transaction decreases the asset cash and decreases the liability accounts payable, each \$300.00.

The entry in the illustration at the right shows the transaction recorded in journal form. The account with the Central Produce Company is debited to record the decrease in the liability accounts payable; the Cash account is credited to record the decrease in the asset cash. Paying a liability reduces the assets and the liabilities the same amount.

	30			
62	Central Produce Company	300 —		
62	Cash		300 —	
	Paid on account of purchase of the 4th.			

The Ledger in the illustration at the right is the result of posting the six journal entries on pages 60, 61 and 62. The balance of the Cash account, \$50.00, shows the amount of cash on hand. This is proved by counting the money. The balance of the Purchases account shows the net purchases.

The balance of the account with the Central Produce Company shows the amount of the indebtedness to this company which is due July 1; see page 47. The balance of the account with Staples & Lake shows the amount of the indebtedness to this firm which was due June 29.

CASH									
19	June	1	50.00	60	600	19	June	2	61 250 —
								30	62 300 —
									650
PURCHASES									
19	June	2		61	250 —	19	June	8	61 50 —
		4		61	450 —				
		9	850.00	62	200 —				
					900				
CENTRAL PRODUCE Co.									
19	June	8		61	50 —	19	June	4	100.00 61 450 —
		30		62	300 —				
					350				
STAPLES & LAKE City									
						19	June	9 20 days	62 200 —
L. S. COLE, PROP.									
						19	June	1	60 600 —

A Trial Balance prepared from the ledger at the bottom of page 62 is in the illustration at the left. The sum of the debit balances equals the sum of the credit balances, hence the ledger is in balance. An equation in which Assets = Liabilities + Proprietorship prepared in statement form from

TRIAL BALANCE			
62	Cash.....	50	—
62	Purchases.....	850	—
62	Central Produce Co.....		100
62	Staples & Lake.....		200
62	L. S. Cole, Prop.....		600
		900	—
			900

the account balances in the Trial Balance is as follows:

Cash	\$ 50.00	Central Produce Co.	\$100.00
Mdse. Inv.	850.00	Staples & Lake	200.00
Assets	\$900.00 = Liabilities	\$300.00 + L. S. Cole, Prop.,	\$600.00

Since there have been no sales the merchandise inventory is equal to the balance of the Purchases account; the title "Merchandise Inventory" is used in the statement because it is the title that indicates the value of merchandise in stock at the time proprietorship is ascertained.

It will be observed that purchases of merchandise on credit do not affect the proprietorship. Each purchase increases the assets on the left side of the equation and the liabilities on the right side the same amount. The payment of a liability decreases the assets and decreases the liabilities the same amount.

Exercise 28, Purchases for Cash and on Credit

(ORAL OR WRITTEN)

1. "Purchased from A. L. Shaw merchandise, \$187.50; terms, 10 days."
(a) How will this transaction be recorded in the journal of James Holt, the purchaser? (b) How will the journal entry be posted?

2. July 1. D. H. Lowe began business with the following assets: cash, \$625.00, and merchandise inventory, \$850.00. R. L. Norton, a charge customer, owes him \$250.00. He owes Green Bros. for merchandise purchased, \$280.00. (a) State his proprietorship in equation form. (b) State the information shown in the equation in the form of a journal entry. (c) State the accounts resulting from posting the journal entry.

3. D. H. Lowe paid Green Bros. \$280.00 which he owed them. State the entry necessary to record this transaction in the journal.

4. D. H. Lowe received \$250.00 from R. L. Norton for the amount owed by him. State the entry necessary to record this transaction in the journal.

5. (a) State the journal entry from which the transaction of June 1 was posted. (b) The transaction of June 5. (c) What is the maturity of the June 1 purchase? (d) What amount will be required to pay the indebtedness to W. O. Lady at maturity?

PURCHASES									
19						19			
June	1			16	216	75	June	5	Ret.
								17	13
									50

W. O. LADY									
19						19			
June	5	Ret.	17	13	50	June	1	30 da.	16
									216
									75

6. (a) Is the account at the left an account with a customer or creditor?
 (b) If the balance stated in the account is entered on the Trial Balance as stated, what effect will the error have on the Trial Balance?

W. O. WATSON					City				
19					19				
May	26			50	May	17	10 da.		92
	31			25		22	30 da.		50
				75			158.89		131
									89
									223
									59
									79
									00

7. The account balance shown in the account at the right is entered on the May 31 Trial Balance as stated. (a) What effect will this error have on the Trial Balance? (b) What amount was shown on the April 30 Trial Balance? (c) What is the balance due June 1?

L. B. MARSH					City				
19					19				
Apr.	7			27	May	5			50
	16			35					
				50					
				59					
				85					
				32					
				75					
				19					
				75					
				112					
				35.1					

Exercise 29, Purchases on Credit

- A. L. Walker began the retail furniture business with a cash investment of \$2,000.00. During the month of May he completed the following transactions with creditors:
- Purchased from Boyd & Company, Atlanta, furniture, \$672.55; terms, 10 days.
 - Purchased from Norman Drapery Company, New Albany, draperies, \$765.48; terms, 10 days.
 - Paid Boyd & Company \$500.00 to apply on account.
 - Bought from Mason Carpet Company, Dodgeville, carpets, \$936.47; terms, on account.
 - Returned draperies to Norman Drapery Company, \$42.50.
 - Paid Norman Drapery Company \$722.98 balance due.
 - Purchased from Boyd & Company, furniture, \$516.55; terms, 30 days.

25. Paid Boyd & Company \$172.55 balance due on purchase of May 2.
26. Returned rugs to Mason Carpet Company, \$126.50.
31. Paid the Sage Rug Co. \$186.55 for a cash purchase of merchandise delivered today.

Instructions. (a) Record these transactions in the journal. (b) Post to accounts with Cash (7), each creditor (4), A. L. Walker, Prop. (4), and Purchases (8). (c) Prove the posting by a Trial Balance.

Note Payable. The proprietor's written promise to pay a definite amount at a certain time is referred to as a *note payable*. The proprietor of a business frequently gives to a creditor a note payable in order to secure additional time for paying the amount due the creditor for purchases on account.

A note payable is a liability. The amount stated in the note, usually referred to as the face value, is the amount of the liability. The discussion of notes payable here relates to notes issued to creditors. Notes may be issued for other purposes as will be explained in a subsequent chapter.

Recording a Note Payable. When a note payable is issued to a creditor, the transaction results in an increase in the liability notes payable and a decrease in the liability accounts payable. The account with the creditor is debited for the *face value* of the note and an account with the title Notes Payable is credited for the same amount.

Issuing a note to a creditor cancels the amount of the indebtedness to him and creates a new liability to pay the person who may happen to own the note when it falls due. When cash is paid at the maturity of the note, the transaction results in a decrease in the asset cash and a decrease in the liability notes payable. When cash is given in payment for a note payable, the cancelled note is returned by the one to whom the cash was paid to the one who paid it.

The method of recording transactions in which a note payable is issued and cash is paid is further explained by illustrations.

May 20. David B. Russell, a retail merchant, gave Wiley & Bray, a creditor, his 30-day note for \$497.65 in full of account.

This transaction results in a decrease in the liability accounts payable and an increase in the liability notes payable. The illustration at the right shows the journal entry

		20		
The account with Wiley	10	Wiley & Bray.....	497 65	
& Bray is debited to re-	12	Notes Payable.....		497 65
cord the decrease in the		Gave 30 day note for		
liability accounts payable		balance due.		

and the Notes Payable account is credited to record the increase in the liability notes payable.

The accounts in the illustration at the right appear on the ledger of David B. Russell after the journal entry on page 65 is posted. The account with Wiley & Bray is in balance and the indebtedness is recorded as a credit to the Notes Payable account. "Note" is written in the explanation column of the account with the creditor to show that the account was closed by note. The time of the note is entered in the explanation column of the Notes Payable account to indicate the maturity of the note.

NOTES PAYABLE									
						19			
						May 20	30 da.	6	497 65
WILEY & BRAY									
Dow City									
19						19			
May	1	5	500	—		Mar. 16	60 da.	2	1297 65
	14	6	300	—					
	20	6	497	65					

May 5. Purchased from Allen & Rogers, City, merchandise,
\$452.50; terms, cash \$200.00, balance 10 days.

The illustration at the right shows the two entries required to record this transaction. The first entry records the full amount of the purchase and the second entry the cash payment. When the entries are posted, the full amount of the purchase will appear on the credit side of the account with the creditor and the amount of the cash on the debit side; according to the terms, the balance will be due in ten days.

	5		
Purchases.....	452 50		452 50
Allen & Rogers.....			
Merchandise purchased; terms, cash \$200; balance 10 days.			
	5		
Allen & Rogers.....	200 —		200 —
Cash.....			
Paid cash in part pay- ment of purchase of today.			

Ruling the Account with a Creditor. When the sum of the amounts on the debit side equals the sum of the amounts on the credit side, the account is *in balance* and should be ruled. The methods of ruling are the same as those for the customer's account illustrated on pages 55 and 56.

SUMMARY OF ACCOUNTS

Account with a Creditor. The title of the account with each creditor is his name and address. The purpose of the account with each creditor is to record the transactions with him.

To accomplish this purpose the account with a creditor is *credited* for the increases in his account, which is a liability, and *debited* for decreases in his account. The *credit* balance is the amount owed the creditor. The sum of all the credit balances to be paid to creditors is the liability accounts payable.

The Notes Payable Account is a record of the changes in the liability notes payable.

The Notes Payable account is *credited* for increases (face of each note) and *debited* for decreases.

The *credit* balance is the liability notes payable and agrees with the amount of the unpaid notes payable.

Debits and Credits. When purchases and sales are made for cash and on credit, the transactions will result in changes in assets, liabilities, and proprietorship. Each transaction is recorded so as to show its effect on assets, liabilities, and proprietorship.

This record is made in the following manner:

(1) Increases in assets, decreases in liabilities, and increases in expense are recorded as debits in the appropriate accounts.

(2) Decreases in assets, increases in liabilities, and increases in income are recorded as credits in the appropriate accounts.

Exercise 30, Transactions with Creditors

(ORAL OR WRITTEN)

1. May 1. M. B. Dunn, a retail shoe merchant, owned the following assets which he used in the operations of his business: Cash, \$8,000.00; Merchandise Inventory, \$1,200.00; Equipment, \$500.00. He owes the Ross Shoe Company \$300.00. State his proprietorship (a) in equation form, (b) in the form of a journal entry, (c) in accounts resulting from posting the journal entry.

2. May 5. M. B. Dunn purchased from Ross Shoe Co. on 30 days' time merchandise for \$700.00. State the journal entry necessary to record this transaction.

3. The entry at the right was recorded in the journal of C. H. House, a radio dealer. (a) Why is the Purchases account debited? (b) Why is the Cross Radio Co. credited? (c) Why is the time mentioned in the explanation?

May 1, 19

Purchases.....	850—	
Cross Radio Co.....		850—
Bought radios on 30 days time.		

(d) When will this indebtedness be due? (e) How will this entry be posted?

4. The entry at the left was recorded in the journal of C. H. House, a radio dealer. (a) Why is the Cross Radio Co. account debited? (b) Why is the Purchases account credited? (c) How will this entry be posted?

Cross Radio Co.....	26 50	
Purchases.....		26 50
One radio returned by agreement.		

5. The entry at the right was recorded in the journal of C. H. House, a radio dealer. (a) Why is the Cross Radio Co. debited? (b) Why is the Cash account credited? (c) How will this journal entry be posted?

June 1, 19

Cross Radio Co.....	823 50	
Cash.....		823 50
Paid in full of account.		

6. Under what conditions will the account with a creditor show (a) a credit balance, and (b) a debit balance?

7. If a purchase of merchandise for \$75.15 is recorded in the journal as a debit to Purchases, \$75.51, and a credit to the account with the creditor as \$75.15, what effect will this error have on the Trial Balance if the entry is posted as stated?

Exercise 31, Transactions with Creditors

March 1. Walter O'Connor invested \$2,500 in cash in the farm implement and garden seed business. During the month of March he completed the following transactions with creditors:

1. Purchased from the Dixon Farm Implement Co., Dixon, farm implements, \$765.50; terms, 30 days.
5. Purchased from Mayo Seed Co., Detroit, Mdse., \$285.20; terms, 10 days.
6. Returned to the Dixon Farm Implement Co., merchandise, \$85.30.
10. Purchased from Adair Bros., Chicago, Mdse., \$429.60; terms, 10 days.
15. Gave Mayo Seed Co. a 15-day note for \$285.20.
18. Purchased from Dixon Farm Implement Co., farm implements, \$472.69; terms, 30 days.
20. Gave Adair Bros. \$229.60 cash and a 30-day non-interest-bearing note for \$200.00 in full for purchase of March 10.
25. Bought from Mayo Seed Co., garden seed, \$216.20; terms, 10 days.
30. Gave Mayo Seed Co. \$285.20 in payment of note due today.

Instructions. (1) Journalize, post, and take a Trial Balance; allow seven lines for each account.

(2) Show proprietorship through an equation in statement form similar to the illustration on page 63; merchandise inventory, \$2,083.89.

Exercise 32, Recording Transactions, Posting and Trial Balance

M. E. Stacey, a retail clothing merchant, completed the following transactions during the month of October:

1. M. E. Stacey invested cash, \$2,000.00, in the clothing business.
1. Paid October rent, \$100.00.
2. Purchased a stock of clothing from the Globe Clothing Co., City, \$1,350.00.
Paid \$800.00 cash; balance, 30 days.
8. Purchased from A. R. King, Clinton, merchandise, \$317.65. Paid \$150.00 cash; balance, 10 days.
10. Received \$375.00 for cash sales of merchandise.
18. Paid A. R. King \$100.00 on account.
24. Sold E. B. Moore, 305 Elm St., City, on account, one overcoat, \$75.00; one suit, \$50.00.
28. Sold J. W. Macon, 222 Main St., City, on account, two suits, \$127.50.
29. Received \$50.00 from E. B. Moore on account.
31. Paid salaries for the month, \$125.00.

Instructions. (1) Journalize, post (allow eight lines for each account), prove cash (balance, \$1,150.00) and take a Trial Balance.

(2) Show present proprietorship through an equation in statement form similar to the illustration on page 63; merchandise inventory, \$1,543.75.

(3) Show net profit and proof of proprietorship through equations in statement form similar to Nos. 2 and 3 on page 42.

CHAPTER VII

INVESTMENTS AND WITHDRAWALS

The proprietorship is increased by investments and decreased by withdrawals. The method of recording increases because of investments was discussed in preceding chapters. The discussion in this chapter relates to investments, withdrawals from investment, and withdrawals for personal use.

Investments. The assets put into the business at the beginning and at any time thereafter are referred to as *investment*. The purpose of investments is to provide the assets needed in operating the business. Each investment results in an increase in the assets and an increase in proprietorship.

Withdrawals. Assets taken out of the business by the owner are referred to as *withdrawals*. The usual purpose of withdrawals is compensation to the owner for his services rendered to the business. The owner may, however, withdraw assets for other reasons if desired. Each withdrawal results in a decrease in proprietorship and a decrease in assets no matter for what purpose the withdrawal is made.

Accounts with the Proprietor. Investment and income are increases in proprietorship and withdrawals and expenses, decreases in proprietorship. Since the difference between the total income and total expenses is the net profit, it is necessary to record the increases and decreases in proprietorship so that those resulting from investments and withdrawals may be shown separately from those resulting from income and expenses.

The usual plan is to record expenses and income in special accounts such as Expense and Sales and to record investments and withdrawals in accounts with the proprietor. The title of the account in which investments are recorded is the name of the proprietor with the word "Capital", "Proprietorship", or "Investment" written after it. The title of the account in which withdrawals in anticipation of profit are recorded is the name of the proprietor with the word "Drawing" or "Personal" written after it. [The withdrawals recorded in the Drawing account are those for compensation or personal use usually referred to as *withdrawals in anticipation of profit*] Should the owner withdraw a part of his invested capital, this would be recorded in his Capital account.

John Smith owns a retail grocery business. The title of the account in which his investments are recorded is "John Smith, Capital". The title of the account in which his withdrawals are recorded is "John Smith, Drawing".

Merchandise Withdrawn for Personal Use. When the proprietor takes merchandise out of stock for personal use, it is customary to record this at the cost price. Thus, merchandise withdrawn for personal use results in a decrease in the asset merchandise and a decrease in proprietorship.

The decrease in proprietorship is recorded as a debit to the Drawing account with the proprietor and the decrease in assets as a credit to the Purchases or Sales account; the effect on proprietorship is the same with either account credited. When the amounts of the withdrawals are large, the Purchases account should be credited to avoid over-stating the sales and the cost of goods sold,

Recording Transactions with the Proprietor. The owner receives credit in his Capital account for the value of the assets invested at the beginning of the business and for subsequent investments. Withdrawals from investment are debited to his Capital account and withdrawals for personal use to his Drawing account. Unless the proprietor issues specific instructions relative to the account to debit for withdrawals, the bookkeeper will assume that all withdrawals are to be recorded in the Drawing account.

January 1. A. L. Durr invested \$2,500.00 in the retail dry goods business.

This investment stated in equation form is:

CASH \$2500.00 = A. L. DURR, CAPITAL \$2500.00

The illustration at the right shows the journal entry necessary to record this investment. The equation "Assets = Proprietorship" is the basis for debits and credits. Assets are on the left of this equation, hence the debit to the Cash account. Proprietorship is on the right of this equation, hence the credit to the proprietorship account.

January 1, 19

72	Cash.....	2500	—	
72	A. L. Durr, Capital.....			2500
	Invested \$2500.00 cash in the retail dry goods business.			

March 15. Invested cash \$1500.00.

This additional investment indicates that the \$2,500.00 invested January 1 was not sufficient capital for carrying on the business. This additional investment is an increase in the assets and an increase in proprietorship.

The illustration at the left shows the journal entry necessary to record this additional investment. The Cash account is debited to record the increase in the asset cash and the Capital account is credited to record the

March 15, 19

72	Cash.....	1500	—	
72	A. L. Durr, Capital.....			1500
	Invested \$1500.00 cash in the business.			

increase in proprietorship through the investment.

April 1. Withdrew \$100.00 cash for personal use.

The fact that this is for personal use indicates that it is to be recorded in the Drawing account. This transaction results in a decrease in the assets and a decrease in proprietorship.

The illustration at the right shows the journal entry required to record this decrease in assets and decrease in proprietorship.

A. L. Durr's Drawing account is debited because the purpose of this account is to contain a

record of all of his personal drawings. The Cash account is credited to record the decrease in the asset cash.

April 1, 19

72	A. L. Durr, Drawing.....	100	—		
72	Cash.....			100	—
	Withdrew cash for personal use.				

May 15. Withdrew \$500.00 of invested capital.

The information indicates that A. L. Durr wishes the withdrawal recorded in his Capital account.

May 15, 19

72	A. L. Durr, Capital.....	500	—		
72	Cash.....			500	—
	Withdrew a part of the invested capital.				

The illustration at the left shows the journal entry required to record this withdrawal. The Capital account is debited to record

the decrease in proprietorship and the Cash account credited to record the decrease in the asset cash.

June 30. Withdrew \$200.00 cash for personal use.

The illustration at the right shows the journal entry required to record this withdrawal. This withdrawal is the same

June 30, 19

nature as the one of April 1; hence the accounts debited and credited are the same as in the entry of April 1.

72	A. L. Durr, Drawing.....	200	—		
72	Cash.....			200	—
	Withdrew cash for personal use.				

Posting Withdrawals. The accounts in the illustration at the left show

the results of posting the journal entries on this and the preceding page. The page in the folio column of each account is the page in this text on which the journal entry was recorded. The Capital account shows the investments, withdrawals from investments, and the balance of invested capital. The Drawing account shows the with-

CASH					
19			19		
Jan. 1	71 2500	—	Apr. 1	72 100	—
Mar. 15	71 1500	—	May 15	72 500	—
	4000		June 30	72 200	—
				800	
A. L. DURR, CAPITAL					
19			19		
May 15	72 500	—	Jan. 1	71 2500	—
			Mar. 15	71 1500	—
				4000	
A. L. DURR, DRAWING					
19					
Apr. 1	72 100	—			
June 30	72 200	—			
	300				

drawals which were made in anticipation of profit.

A Trial Balance prepared from the balances of the accounts in the ledger at the bottom of page 72 is shown in the illustration at the right.

TRIAL BALANCE, June 30, 19

72	Cash.....	3200	—	
72	A. L. Durr, Capital.....			3500
72	A. L. Durr, Drawing.....	300	—	
		3500	—	3500

An equation prepared from the account balances in the Trial Balance is:

$$\text{CASH } \$3200.00 = \text{A. L. D. CAPITAL } \$3500.00 - \text{A. L. D., DRAWING } \$300.00$$

Since the balance of the Drawing account is a decrease in proprietorship, the equation may be:

$$\text{CASH } \$3200.00 = \text{A. L. DURR, PROPRIETORSHIP, } \$3200.00$$

SUMMARY

The Capital account is a record of increases and decreases in investment. It is *credited* with increases and *debited* with decreases. The *credit* balance shows the owner's net investment which is his proprietorship at the beginning of each fiscal period.

The Drawing account is a record of the withdrawals for compensation or personal use. The Drawing account is *debited* for all withdrawals. The *debit* balance of the Drawing account shows the amount withdrawn by the proprietor. It is a decrease in proprietorship and may be regarded by the owner as one of the expenses of the business, but for income tax purpose the debit balance of the Drawing account can not be regarded as an expense.

The method of transferring the net profit to the Capital account, and closing the Drawing account into the Capital account is explained in Chapter IX.

Debits and Credits. Each transaction is recorded so as to show its effect on assets, liabilities, proprietorship, income, and expense. This record is made in the following manner:

(1) Increases in assets, decreases in liabilities, decreases in proprietorship, and increases in expense are recorded as debits in the appropriate accounts.

(2) Decreases in assets, increases in liabilities, increases in proprietorship, and increases in income are recorded as credits in the appropriate accounts.

Exercise 33, Accounts with the Proprietor

(ORAL OR WRITTEN)

1. You invest \$500.00 in cash in a retail candy business. (a) What accounts are debited and credited? (b) Why?

2. You withdraw \$50.00 for personal use. What accounts are debited and credited?

3. You invest an additional \$500.00 in the retail candy business. (a) What accounts are debited and credited? (b) Why?

4. You take for personal use a box of candy which costs \$2.50. What accounts are debited and credited?

5. June 5. J. L. Burr, a dealer in electric supplies, took for home use an electric fan which cost \$18.75. What account may be credited?

6. B. H. Kroger, a grocer, gave the telephone company a check for \$10.00, \$7.50 of which pays for the telephone in the store and \$2.50 for the telephone in his home. What accounts are debited for each amount?

Exercise 34, Capital and Drawing Accounts

R. B. Morgan began business as a retail dealer in electrical supplies July 1. During the first six months of operations he made the following investments and withdrawals.

July 1. Invested cash, \$4,500.00.

15. Withdrew cash, \$100.00.

27. Took from stock an electric percolator, cost price \$6.50.

Aug. 31. Withdrew cash, \$300.00.

Sept. 15. Took electrical supplies for home use, \$275.50.

Oct. 20. Invested cash, \$1,000.00.

Dec. 15. Withdrew cash \$350.00.

Instructions. Journalize, post (allow eight lines for each account) and take a Trial Balance. Debit all withdrawals to the Drawing account; credit the Purchases account for merchandise withdrawn.

Exercise 35, Capital and Drawing Accounts

The accounts below appear on the ledger of C. H. Matson, who operates the Royal Cafe.

C. H. MATSON, CAPITAL

192					192				
June	30	Cash	1	600	—	May	1	Cash	1
Aug.	1	Cash	2	350	—	June	1	Cash	1
						Aug.	10	Cash	2
									1250
									500
									1000

C. H. MATSON, DRAWING

192									
May	10	Merchandise	1	16	50				
	31	Cash	1	75	—				
June	9	Merchandise	1	38	75				
July	15	Cash	2	100	—				
	31	Cash	2	150	—				

Instructions. (1) Record in the journal in the proper order the information shown in the accounts. Credit the Purchases account for merchandise withdrawn.

(2) (a) Post to accounts with Cash (8), Purchases (5), Capital (6) and Drawing (7). (b) Prove cash, balance \$1,475.00. (c) Prove the posting by a Trial Balance.

REVIEW

The transactions completed by E. B. Tate, outlined in the following narrative and recorded in the illustrations on pages 79–82, provide a review of the preceding chapters.

NARRATIVE OF MAY TRANSACTIONS

- 1. E. B. Tate invested \$3,500.00 in cash in the retail furniture business.
- 2. Purchased from Dobbs Bros., merchandise per invoice rendered as follows:

DOBBS BROS.		
MANUFACTURERS OF HIGH CLASS FURNITURE		
DAYTON, OHIO		
Sold to E. B. Tate 313 Main St. Cincinnati, Ohio		May 2, 192
Terms: Cash \$1500 on delivery Bal. 20 days	Shipped Via	Trunk
1+ Living Room Suite		280.00 ✓
3+ Bedroom Suites	95.00 ✓	285.00 ✓
1+ Bedroom Suite		197.25 ✓
3+ Dining Room Suites	57.50 ✓	172.50 ✓
1+ Dining Room Suite		153.25 ✓
2+ Dining Room Suites	87.00 ✓	261.00 ✓
2+ Kitchen Cabinets	27.50 ✓	55.00 ✓
15+ Kitchen Tables	1.50 ✓	22.50 ✓
4+ Refrigerators	16.25 ✓	65.00 ✓
1+ Refrigerator		69.00 ✓
7+ Rugs, 6 x 9	14.75 ✓	103.25 ✓
2+ Rugs, 9 x 12	18.25 ✓	36.50 ✓
2+ doz. Chairs	11.75 ✓	23.50 ✓
1+ doz. Rockers		36.00 ✓
1+ doz. Curtains		18.50 ✓
8+ doz. Curtains	28.00 ✓	224.00 ✓
3+ doz. Curtains	48.00 ✓	144.00 ✓
		\$2165.42 ✓

This purchase invoice contains full information regarding the purchase made from Dobbs Bros. by E. B. Tate. The check marks indicate that the quantities billed were received and that the prices and extensions are correct.

- 2. Paid May rent and received the receipt shown below.

Rent Receipt.

Received of Cincinnati, May 2, 192

E. B. Tate

Eighty-three 33 Dollars for

Rent of Store No. 313

Main Street for one Month

Ending May 31, 192

\$ 93.25 D. R. Brown

This receipt is evidence to Mr. Tate that he has paid the money and evidence to the bookkeeper of the reason for the payment.

5500
250

11. Sold C. A. Adams, 932 Day St., City, 30 days, merchandise per sales ticket No. 2, \$118.50.

The sales ticket was the same form as sales ticket No. 1.

12. Purchased from the Grant Manufacturing Company, 420 Spring St., City, 30 days, merchandise, invoice dated May 11, \$1,162.90.

The purchases invoice was similar to the one received from Dobbs Bros.

15. Sold James B. Fall, 617 Davis Ave., City, on account, merchandise, sales ticket No. 3, \$247.50.

16. E. B. Tate took \$100.00 in cash for personal use

18. Cash sales of furniture and draperies, \$562.75.

20. Gave Dobbs Bros. \$365.42 in cash to apply on account.

22. Sold A. T. Miller, City, on account, merchandise, sale No. 4, \$118.50.

23. Received \$100.00 in cash from James B. Fall to apply on account. Issued a receipt as follows:

Date <u>May 23 19</u>	Cincinnati <u>May 23, 19</u>	
To <u>James B. Fall</u>	Received of <u>James B. Fall</u>	
	<u>One Hundred</u>	<u>00</u> / ₁₀₀ Dollars
For <u>On account</u>	<u>On account</u>	
No. <u>1</u>	No. <u>1</u>	
<u>\$100.00</u>	<u>\$100.00</u>	<u>E. B. Tate</u>

This receipt was issued by E. B. Tate as an acknowledgment of the cash received. He has retained on the stub the same information as is on the receipt. The receipt will be detached from the stub and given to James B. Fall. The stub is bound in a book where it will be retained permanently. The information for the bookkeeping records will be from the receipt stub, hence, the explanation in the journal "Received cash per receipt No. 1".

26. Sold C. A. Adams, City, 60 days, merchandise, sale No. 5, \$159.00.

27. Received check for \$100.00 from A. T. Miller to apply on account.

Cincinnati <u>May 27, 19</u>	No. <u>13-39</u>
The Central Trust Company	
Pay to the order of <u>E. B. Tate</u>	<u>\$100.00</u>
<u>One Hundred</u>	<u>00</u> / ₁₀₀ Dollars
<u>A. T. Miller</u>	


E. B. Tate regards this check as cash because A. T. Miller has the money on deposit in the bank and the bank will pay it to E. B. Tate or his order.

27. Gave Dobbs Bros. the note shown below in payment for balance due on purchase of May 2.

Amount \$ <u>300.00</u>		\$ <u>300.00</u> Cincinnati May 27, 19__	
Date <u>May 27</u> 19__		Thirty days after date I promise to pay to	
Time <u>Thirty days</u>		the order of <u>Dobbs Bros.</u>	
In favor of <u>Dobbs Bros.</u>		<u>Three hundred</u> and <u>00</u> ¹⁰⁰ / ₁₀₀ Dollars	
Payable at <u>their office</u>		Payable at <u>their office</u>	
Interest <u>—</u> % from		Value received with interest at <u>—</u> %	
Due <u>June 26</u> 19__		No. <u>5</u> Due <u>June 26</u> 19__ E. B. Tate	
No. <u>5</u>			

Mr. Tate still owes Dobbs Bros. \$300.00, but it is now in the form of a written promise to pay this amount within thirty days. The stub is bound in a book where it is retained permanently. It shows the same information as the note so that when the note is detached and given to Dobbs Bros. the bookkeeping record may be made from the stub.

29. Purchased from Dobbs Bros., City, terms, 60 days, merchandise, invoice dated May 27, \$1,407.95.
29. Received the note illustrated below from James B. Fall in full of balance due on sale of May 15.

	\$ <u>1,407.95</u> Cincinnati May 27, 19__	
	Twenty days after date I promise to pay to	
	the order of <u>E. B. Tate</u>	
	<u>One thousand four hundred and seven</u> ⁹⁵ / ₁₀₀ Dollars	
	Payable at <u>—</u>	
	Value received with interest at <u>—</u> %	
	No. <u>17</u> Due <u>June 16</u> 19__ James B. Fall	

This note was prepared by James B. Fall and removed from a stub similar to the one shown under the transaction of May 27. This note is one of E. B. Tate's assets.

31. Paid cash, \$125.00, clerk's salary for the month.
31. A count of the cash showed \$2,089.00 on hand.

The transactions completed by E. B. Tate during the month of May are shown recorded in the journal, Illustration 8, pages 79 and 80, and posted to the ledger, Illustration 9, pages 81 and 82.

May 1, 19

81	Cash	3500	—	
82	E. B. Tate Capital			3500
	Investment in furniture business			
	2			
82	Purchases	2165	42	
81	Dobbs Bros. Dayton, Ohio			2165
	Purchase invoice of today, \$1500 cash			
	on delivery, balance 20 days.			
	2			
82	Expense	8333		
81	Cash			8333
	Paid rent for May			
	3			
81	Dobbs Bros.	1500	—	
81	Cash			1500
	Paid cash to apply on purchase, May 2			
	5			
81	A. T. Miller, 1214 Walnut St. City	19875		
82	Sales			19875
	Sales Ticket No. 1.			
	9			
82	E. B. Tate, Drawing	50	—	
82	Purchases			50
	Sent new check rug for home use			
	11			
81	C. A. Adams 732 Day St. City	11850		
82	Sales			11850
	Sales Ticket No. 2.			
	12			
82	Purchases	1162	90	
82	Grant Mfg Co, 420 Spring St. City			1162
	Purchase invoice May 11, 30 days.			
	15			
81	James T. Fall, 617 Davis Ave, City	24750		
82	Sales			24750
	Sales Ticket No. 3.			
	16			
82	E. B. Tate, Drawing	100	—	
81	Cash			100
	Withdrawal cash for personal use.			

May 18, 19

81	Cash	56275	
82	Sales		56275
	Cash sales		
	20		
81	Dobbs Bros.	36542	
81	Cash		36542
	Paid cash to apply on account.		
	22		
81	A. T. Miller	11850	
82	Sales		11850
	Sales Ticket No. 4.		
	23		
81	Cash	100 -	
81	James B. Tall		100 -
	Received cash per Receipt No. 1.		
	26		
81	C. A. Adams	159 -	
82	Sales		159 -
	Sales Ticket No. 5		
	27		
81	Cash	100 -	
81	A. T. Miller		100 -
	Received cash to apply on account.		
	27		
81	Dobbs Bros.	300 -	
81	Notes Payable		300 -
	Gave 30-day note for balance due		
	on purchase of May 2.		
	29		
82	Purchased	140795	
81	Dobbs Bros.		140795
	Purchase invoice May 27, 60 days.		
	29		
81	Notes Receivable	14750	
81	James B. Tall		14750
	Received 20 day note for sale of May 15.		
	31		
82	Expense	125 -	
81	Cash		125 -
	Paid clerk's salary for the month.		

Cash

¹⁹ May 1	79	3500	—	¹⁹ May 2	79	8333
18	80	56275		3	79	1500 —
23	80	100	—	16	79	100 —
27	2089.00	80	42275	20	80	36542
				31	80	212575

Notes Receivable

¹⁹ May 29 20 days	80	14750				
¹⁹ May 5	79	19875		¹⁹ May 27	80	100 —
22	217.25	80	31850			

A. T. Miller

1214 Walnut St. City

C. A. Adams

932 Day St. City

¹⁹ May 11 30 days	79	11850				
26 60 days	80	15950				
¹⁹ May 15	79	24750		¹⁹ May 23	80	100 —
				29 20 day note	80	14750

James B. Tall

617 Davis Ave City

Merchandise Inventory

Notes Payable

¹⁹ May 27 30 days	80	300 —
------------------------------	----	-------

Dobbs Bros.

Dayton, Ohio

¹⁹ May 3	79	1500	—	¹⁹ May 2	79	216542
20	80	36542		24 May 27 60 days	80	140795
27 30 day note	80	300	—			

*Grant Mfg. Co**420 Spring St. City**'9 May 12 May 11, 30 days 79 116290**E. B. Tate, Capital**'9 May 1**79 3500 --**E. B. Tate, Drawing**'9 May 9
16**79 50 --**79 180 --**Sales**'9 May 5**79 19875.**11**79 11850**15**79 24750**18**80 56275**22**80 11850**26**80 159 --**1405**Purchases**'9 May 2**79 216542**'9 May 9**79 50 --**12**79 116290**29**4686.27**80 140795**473637**Expense**'9 May 2 Rent**79 8333**31 Clerk's salary**80 125 --**20833*

Trial Balance. Illustration 10 below shows the account balances on the ledger, Illustration 9, pages 81 and 82. The numbers at the left of the account titles are the pages in the ledger.

E. B. Tate
Trial Balance, May 31, 19

81 Cash	2089 -	
81 Notes Receivable	14750	
81 A. T. Miller	21725	
81 C. A. Adams	27750	
81 Merchandise Inventory		
81 Notes Payable		300 -
81 Dobbs Bros.		140795
82 Grant Mfg. Co.		116290
82 E. B. Tate, Capital		3500 -
82 E. B. Tate, Drawing	150 -	
82 Sales		1405 -
82 Purchases	468627	
82 Expense	20833	
	777585	777585

Illustration 10, Trial Balance

Statement of Account. It is customary with merchants to render a statement to each charge customer on the first of the month. One of the statements below was mailed to A. T. Miller by E. B. Tate and the other one was mailed to E. B. Tate by the Grant Manufacturing Co.

STATEMENT

E. B. TATE

FURNITURE
AND CARPETS

CINCINNATI, O., June 1, 19

To Mr. A. T. Miller

1221 Highland St.

City

BALANCE				
May 1	Balance per bill rendered		1162 90	
22	Do		1162 90	
	May 1		1162 90	
	May 1		1162 90	

STATEMENT

CINCINNATI, OHIO June 1, 19

GRANT MANUFACTURING COMPANY

420 SPRING STREET

Manufacturers of High Grade Furniture

To Mr. E. B. Tate

313 Main St., City

DATE	CHARGES	CREDITS	BALANCE
MAY 11	1162 90		1162 90 +

The statement at the left agrees with A. T. Miller's account in the ledger on page 81, and the statement at the right, with Grant Manufacturing Company's account on page 82.

Exercise 36, Business Forms

(ORAL OR WRITTEN)

1. What does a purchase invoice represent?
2. What entry is made in the journal for a purchase invoice on which the terms are "30 days"?
3. What does a sales ticket represent?
4. What entry is required to record a transaction represented by a sales ticket with no stated terms, that is, "on account"?
5. What is the purpose of (a) a receipt? (b) a receipt stub?
6. What account is credited by the one who receives a receipt?
7. What account is debited by the one who issues the receipt?
8. What is the purpose of (a) a check? (b) a check stub?
9. What account is debited by the one who receives a check?
10. What account is credited by the one who issues the check?
11. What is the purpose of a statement of account?
12. Will the account on the ledger of the one who receives a statement show a debit or credit balance?
13. Will the account on the ledger of the one who sends a statement show a debit or a credit balance?
14. "Invested \$1,000.00 in the retail toy business." How will this transaction be recorded in the journal using the current date and your name?
15. The assets, liabilities and proprietorship of G. Daws on July 1 are stated in the equation below:

Cash	\$500.00	C. L. Joy	\$100.00	G. Daws, Capital	\$650.00
James Allen	100.00	Notes Pay.	200.00	G. Daws, Drawing	— 50.00
Equipment	300.00				
Assets	\$900.00	— Liab.	\$300.00	= G. Daws, Pres. Cap.	\$600.00

How can these facts be expressed in account form?

Exercise 37, Recording Transactions, Posting and Trial Balance

July 1. E. B. Mann began a retail paint and varnish business with a cash capital of \$1,500.00. During July he completed the following transactions; unless otherwise stated, the terms on sales are "on account".

1. Paid \$90.00 for July rent.
2. Bought from A. L. Durr, City, merchandise for \$516.50. Paid \$300.00, balance to be paid within 10 days.
5. Sold J. A. Taylor, 22 Poplar St., one 5-gallon pail cream paint at \$2.40 a gallon; ten 1-gallon cans French gray at \$2.35 a gallon.
6. Received \$327.50 for cash sales of paint.

8. Bought from Johnson Paint Company, City, merchandise for \$475.50, terms 10 days.
9. Sold O. B. Joy, 215 Center St., 10 gallons green paint at \$2.50; 5 gallons pearl gray at \$2.45; 5 gallons red paint at \$3.25; 5 gallons varnish at \$4.50. Received cash \$25.00, balance 30 days.
10. Sold J. A. Taylor, 4 gallons varnish at \$4.50; 5 gallons floor paint at \$2.40.
12. Gave A. L. Durr a 20-day note for \$216.50 in full of account.
12. Received \$204.50 for cash sales.
15. Paid clerk \$35.00, salary for first half of July.

Instructions. (a) Record each of these transactions in the journal. (b) Open accounts with Cash (10), Notes Receivable (4), J. A. Taylor (5), O. B. Joy (4), J. C. Martin (4), Notes Payable (5), A. L. Durr (5), Johnson Paint Company (6), E. B. Mann, Capital (4), E. B. Mann, Drawing (5), Sales (12), Purchases (8) and Expense (5). (c) Post the journal entries. (d) Prove cash, balance \$1,632.00. (e) Take a Trial Balance.

Exercise 38, Recording Transactions, Posting and Trial Balance

July 16-31, E. B. Mann completed the following transactions:

16. E. B. Mann took 5 gallons of paint from stock for use at his home, cost, \$1.95 per gallon. (Credit Purchases account).
18. Purchased from A. L. Durr, merchandise for \$327.50.
18. Gave Johnson Paint Company note for \$300.00 due in 30 days and cash \$175.50 in full for purchase of the 8th.
20. Received \$186.50 for cash sales of merchandise to date.
23. Received a note due in 10 days from J. A. Taylor for \$65.50 in full for sales of the 5th and 10th.
24. Sold J. C. Martin, 527 Spring St., City, 10 gallons porch paint at \$2.15; 10 gallons calcimine at \$1.40; 2 gallons auto enamel at \$3.75.
26. J. C. Martin returned 2 gallons of the porch paint sold him on the 24th.
28. Purchased from the Johnson Paint Company, merchandise for \$265.50, terms 30 days.
30. E. B. Mann took cash, \$100.00, for personal use.
31. Received \$275.25 for cash sales to date.
31. Paid clerk \$35.00, salary for last half of July.

Instructions. (a) Record each of these transactions in the journal. (b) Post to the same accounts as in the preceding exercise. (c) Prove cash, balance \$1,783.25. (d) Take a Trial Balance. (e) Show the present proprietorship, net profit and proof of proprietorship in equation form; merchandise inventory, \$796.80.

May 31, 31 March 31
June 30 Nov. 30
July 31 Dec. 31
Aug. 31

CHAPTER VIII

BALANCE SHEET AND PROFIT AND LOSS STATEMENT

The method of ascertaining the present proprietorship and net profit after recording a group of transactions has been previously explained and illustrated. The discussion in this chapter relates to the written reports prepared for the owner at the close of a *fiscal period*.

Fiscal Period. The owner of a business will want to know from time to time the results of operating the business because he has invested cash or other assets for the purpose of making a profit, that is, increasing the amount of the proprietorship. Since the federal government requires a report of annual income for income tax purposes, the owner must ascertain the net profit or net loss at least once each year. If the nature of the business is such that the net profit should be ascertained more often, it may be secured monthly, quarterly, or semi-annually. [The term *fiscal period* is used in book-keeping to describe the period for which the profit is ascertained.]

A *monthly fiscal period* is a period of operations for one month; it usually begins with the first transaction on the first day of the month and ends with the last transaction on the last day of the month. A *yearly fiscal period* includes the operations for twelve successive months; it usually begins with the first day of the first month and ends with the last day of the twelfth month. A *calendar year* is a fiscal period of twelve months which begins with January 1. A *fiscal year* is a fiscal period of twelve months; it may or may not coincide with the calendar year.

Merchandise Inventory. [The value of the unsold merchandise is ascertained by *taking stock*.] The method of taking stock and listing the merchandise in order to ascertain the value of the merchandise on hand is explained and illustrated on page 87. The value of the merchandise remaining unsold and a list of this merchandise are each referred to as the *merchandise inventory*.

When the cost of merchandise sold is not recorded at the time each sale is made, it is necessary to record the cost of all sales in one amount at the close of the fiscal period. When all the merchandise purchased has been sold, the debit balance of the Purchases account shows the cost of sales. When all the merchandise has not been sold, the balance of the Purchases account will include two things, (1) the cost value of the merchandise sold, and (2) the asset value of the merchandise in stock. When the value of the merchandise inventory is known, the cost of sales may be ascertained by subtracting the inventory from the balance of the Purchases account.

When the cost price of each article sold is not recorded separately as sales are made, the inventory can be proved by a supplementary record of the number of units of each kind of merchandise bought and sold. Thus, if a shoe merchant purchased 100 pairs of shoes of a given style as shown by the purchases invoices and sold 60 pairs of the same style as shown by the sales tickets, he will know that there should be 40 pairs of this style on hand. If a count shows only 38 pairs in stock and the other two cannot be located, he will know that they have been stolen or that sales have not been recorded.

The value of the merchandise in stock may be ascertained at any time but must be known at the close of the fiscal period. The illustration at the right shows a list of merchandise remaining in stock after the purchases and sales recorded in the ledger of E. B. Tate, pages 81 and 82 have been completed. This information was obtained by counting the merchandise and listing the number of units of each kind in stock at the cost price.* It is quite evident that if three bedroom suites cost \$95.50 each, the total asset value of three is \$286.50. The total, \$4,047.82, is the asset value of the merchandise in stock.

E. B. TATE
MERCHANDISE INVENTORY, May 31, 19

3	Bedroom Suites.....	95.50	286	50
2	Bedroom Suites.....	112.75	225	50
1	Bedroom Suite.....	197.25	197	25
4	Dining Room Suites.....	57.50	230	—
3	Dining Room Suites.....	87.00	261	—
2	Dining Room Suites.....	109.25	218	50
10	Kitchen Cabinets.....	27.50	275	—
18	Kitchen Tables.....	1.50	27	—
9	Refrigerators.....	16.25	146	25
7	Refrigerators.....	22.50	157	50
3	Refrigerators.....	47.00	141	—
16	Rugs.....	9.50	152	—
8	Rugs.....	14.76	118	08
3	Rugs.....	18.25	54	75
12	Doz. Chairs.....	7.50	90	—
5	Doz. Chairs.....	11.75	58	75
4	Doz. Chairs.....	16.00	64	—
5	Doz. Rockers.....	18.00	90	—
4	Doz. Rockers.....	33.00	132	—
3	Doz. Rockers.....	55.00	165	—
21	Doz. Curtains.....	18.50	388	50
18	Doz. Curtain Rods.....	1.18	21	24
11	Doz. Curtains.....	28.00	308	—
5	Doz. Curtains.....	48.00	240	—

Value of merchandise on hand... 4047 82

Illustration 11, Merchandise Inventory

*Market price may be used under certain conditions as will be explained in a subsequent chapter.

Exercise 39, Fiscal Period

(ORAL OR WRITTEN)

1. C. H. Rogers began business July 1, continued operation through the succeeding twelve months, and at the end of that time took stock to ascertain the profit. (a) On what day of what month would the period of operation close? (b) Was the period a fiscal year or a calendar year?
2. W. A. Lott began business March 1. If he wishes to regard each month as a fiscal period, (a) when will the first fiscal period end? (b) when will the second fiscal period begin? (c) On what date will the annual fiscal period close?
July 28
3. W. L. Bird began business July 1. (a) When will the first fiscal year close? (b) Should W. L. Bird wish to change to a calendar year basis, when would the next fiscal period end?
June 30
4. W. J. Ward began business May 1. He wishes to regard each three months as a fiscal period. When does (a) the first fiscal period end? (b) the

second fiscal period begin and end? (c) the third fiscal period begin and end? (d) the fourth fiscal period begin and end?

5. June 30, the stock-taking day, L. A. Joy, a retail clothing merchant, had in stock 16 $\frac{1}{2}$ dozen shirts which cost \$15.00 per dozen. At what value were these shirts listed on the inventory?
6. At the close of the fiscal period, June 30, Robert Ward, a retail grocer, had in stock 1 barrel of sugar, 320 pounds, which cost \$5.50 per hundred pounds. At what value would this sugar be stated on the inventory?
7. The debit balance of the Purchases account is \$12,500.00, the credit balance of the Sales account \$11,800.00, and the value of the merchandise in stock at the close of the fiscal period \$4,300.00. (a) What was the cost of the merchandise sold? (b) What was the profit made by selling this merchandise?
8. D. L. Ray, a retail shoe merchant, paid \$550.00 for 100 pairs of shoes at \$5.50 per pair. At the close of the fiscal period, June 30, 63 pairs of these shoes remained unsold. At what value will each of these 63 pairs of shoes be listed on the inventory?

Exercise 40, Merchandise Inventory

C. H. Underwood, a dealer in office furniture, had the following merchandise in stock at the close of the fiscal period, May 31:

- 8 typewriter desks, cost \$65.00 each.
- 5 used typewriters, cost \$52.50 each.
- 8 chairs, cost \$4.80 each.
- 3 flat top desks, cost \$27.85 each.
- 14 looseleaf ledgers, cost \$11.50 each.
- 32 sections No. 9 filing cases, cost \$5.35 each.
- 5 No. 12 filing cases, cost \$6.40 each.
- 250 dozen No. 486 pencils, cost 70c per dozen.
- 3 dozen rulers, cost \$1.75 per dozen.
- 50 dozen pen points, cost 32c per dozen.

Instructions. Prepare an inventory of this merchandise similar in form to the illustration on page 87.

REPORTS

At the close of a fiscal period, it is customary to report to the owner the value of the assets, the amount of the liabilities, the present proprietorship, and the net profit or loss resulting from the transactions completed during the fiscal period. The written report containing a list of the assets, liabilities, and the present proprietorship is known as the *Balance Sheet*. The report containing a list of the increases (income) or decreases (expense) in proprietorship and the net profit or loss is known as the *Profit and Loss Statement*.

Preliminary Work. Before preparing the Balance Sheet and Profit and Loss Statement, it is customary to ascertain the present capital which will be shown on the Balance Sheet, and the net profit which will be shown on the Profit and Loss Statement, and to prove that each is correct. The equations discussed and illustrated in previous chapters may be used for this purpose. The *Working Sheet*, however, is a more convenient form for securing the desired information. When the present capital and net profit are known, the Balance Sheet and Profit and Loss Statement may be prepared with the assurance that the information stated in each is correct.

Working Sheet. (An extended form of the Trial Balance) similar to the illustration below is referred to as a (*Working Sheet*). The purpose of the six columns at the right of the two columns for the Trial Balance is indicated by the titles of the columns.

E. B. Tate
Working Sheet, May 31, 19

NAME OF ACCOUNT	TRIAL BALANCE		ADJUSTMENTS		BALANCE		P. & L. STATEMENT	
	DR	CR	DR	CR	ASSETS	LIAB. & PROP.	COSTS & EXP.	INCOME
Cash	2089-				2089-			
Notes Receivable	14750				14750			
A. T. Miller	21725				21725			
C. A. Adams	27750				27750			
Merchandise Inventory	404782		404782		404782			
Notes Payable		300-				300-		
Dobbs Bros.	140795				140795			
Grant Mfg. Co.	116290				116290			
E. B. Tate Capital		3500-				3350-		
E. B. Tate, Drawing	150-							
Sales		1405-						1405-
Purchases	468627			404782			63845	
Expense	20833						20833	
Net Profit								
	777585	777585	404782	404782	677907	622085	84678	1405-
						55822	55822	
					677907	677907	1405-	1405-

Illustration 12, Working Sheet

The method of preparing the Working Sheet is described briefly in the following paragraphs:

(1) The Trial Balance is copied on the Working Sheet form. The merchandise inventory is entered in the Adjustments Dr., column on a line with Merchandise Inventory to indicate addition, and in the Adjustments Cr., column on a line with Purchases to indicate subtraction; (the merchandise inventory is subtracted from the Purchases account and added to the Merchandise Inventory account to record the cost of sales and the merchandise inventory.)

(2) The first four account balances on the Trial Balance are assets, hence each balance is extended into the Assets column.

(3) The merchandise inventory entered in the Adjustments Dr. column is an asset, hence is extended into the Assets column.

(4) The next three account balances are liabilities, hence each balance is extended into the Liabilities column.

(5) The balance of the Capital account less the balance of the Drawing account is the net investment (page 73), hence is extended into the Capital column.

(6) The balance of the Sales account is an income, hence is extended into the Income column. The difference between the Purchases account and the amount entered in the Adjustments Cr. column is the cost of sales, hence is extended into the Costs column. The balance of the Expense account is extended into the Expense column.

(7) Each of the four columns is added. The difference between the total assets and sum of the liabilities and invested capital is the net profit (page 63). The difference between the income and the expense is the net profit (page 51). The net profit in both cases should be the same.

The facts obtained from adding the columns expressed in the form of the three equations used in previous chapters for ascertaining proprietorship and profit are:

$$\text{ASSETS } \$6779.07 = \text{LIABILITIES } \$2870.85 + \text{PROPRIETORSHIP } \$3908.22$$

$$\text{INCOME } \$1405.00 - \text{EXPENSES } \$846.78 = \text{NET PROFIT } \$558.22$$

$$\text{NET INVESTMENT } \$3350.00 + \text{NET PROFIT } \$558.22 = \text{PRESENT CAPITAL } \$3908.22$$

Balance Sheet. A formal written report of assets, liabilities and proprietorship is referred to as a *Balance Sheet*, *Financial Statement*, or *Statement of Assets and Liabilities*. The Balance Sheet contains the following information:

(1) The title which is the name of the owner, the name of the report and the date.

(2) The name and amount of each asset and the total assets.

(3) The name and amount of each liability and the total liabilities.

(4) The proprietorship.

The Balance Sheet may be prepared at any time the value of the merchandise inventory is known but is usually prepared only at the close of the fiscal period. It is prepared in either the *account form* or *report form* as illustrated on page 91. The Balance Sheet columns of the Working Sheet or the balances of the asset and liability accounts and the merchandise inventory provide a basis for the information shown on the Balance Sheet.

The information given on a Balance Sheet shows the condition of the business only on the date of the Balance Sheet. In other words, it shows the financial condition on a *definite date*.

Illustration 13 below is a Balance Sheet in account form prepared from the Balance Sheet columns of the Working Sheet, Illustration 12. The totals stated in equation form are:

ASSETS \$6,779.07 = LIABILITIES \$2,870.85 + E. B. TATE, CAPITAL \$3,908.22

E. B. Tate
Balance Sheet May 31, 19

Assets:		Liabilities:	
Cash	2089 -	Notes Payable	300 -
Notes Receivable	14750	Accounts Payable:	
Accounts Receivable:		Dobbs Bros	140795
A. T. Miller	21725	Grant Mfg. Co	116290
C. A. Adams	27750	Total Liabilities	287085
Merchandise Inventory	404782	Proprietorships:	
Total Assets	677907	E. B. Tate, Present Cap	390822
		Total Liabilities + Props.	677907

Illustration 13, Balance Sheet in Account Form

Illustration 14 shows a Balance Sheet containing the same facts as Illustration 13, prepared in report form. The totals in equation form are:

ASSETS \$6,779.07 - LIABILITIES \$2,870.85 = E. B. TATE, CAPITAL \$3,908.22

Report made by
E. B. Tate
Balance Sheet May 31, 19

677907
287085
390822
3350
558
3908

Assets:		Liabilities:	
Cash	2089 -	Notes Payable	300 -
Notes Receivable	14750	Accounts Payable:	
Accounts Receivable:		Dobbs Bros	140795
A. T. Miller	21725	Grant Mfg. Co	116290
C. A. Adams	27750	Total Liabilities	287085
Merchandise Inventory	404782	E. B. Tate, Present Capital	390822
Total Assets	677907		

Illustration 14, Balance Sheet in Report Form

Profit and Loss Statement. A formal written report of income, expenses and net profit is referred to as a *Profit and Loss Statement*, *Income and Expense Statement*, *Statement of Income and Expenses*, or *Loss and Gain Statement*. The Profit and Loss Statement contains the following information:

(1) The title which is the name of the owner, the name of the report and the period to which it is applicable.

(2) The sales, cost of merchandise sold, and gross profit on sales.

(3) The expenses.

(4) The net profit.

The Profit and Loss Statement may be prepared at any time the cost of merchandise sold is known but it is usually prepared only at the close of the fiscal period. It is usually prepared only in one form as illustrated below. The Profit and Loss Statement columns of the Working Sheet, or the Purchases, Sales, and Expense accounts and the merchandise inventory provide a basis for the information shown on the Profit and Loss Statement.

The Profit and Loss Statement shows the net profit for a specific period of time, hence the title should indicate the beginning and closing dates of this period. In other words, the Profit and Loss Statement shows the net profit resulting from operating the business during a definite period of time.

E. B. Tate
Profit and Loss Statement for Month Ending May 31, 19

<i>Income from Sales:</i>				
<i>Net Sales</i>				<i>1405 -</i>
<i>Cost of Goods Sold:</i>				
<i>Purchases</i>	<i>468627</i>			
<i>Deduct Merchandise Inventory</i>	<i>404782</i>			
<i>Cost of Goods Sold</i>				<i>63845</i>
<i>Gross Profit on Sales</i>				<i>76655</i>
<i>Operating Costs:</i>				
<i>Expenses</i>				<i>20833</i>
<i>Net Profit</i>				<i>55822</i>

Illustration 15, Profit and Loss Statement

The above illustration shows a Profit and Loss Statement prepared from the Profit and Loss columns of the Working Sheet, Illustration 12. The information is similar to that in previous equations in statement form used to ascertain cost of sales, profit on sales and net profit.

The balance of the Purchases account less the merchandise inventory is the cost of sales. The profit on sales is the difference between the balance of the Sales account and the cost of merchandise sold. The net profit is the difference between the profit on sales and the expenses.

Analysis of Proprietorship. Should the owner wish to know the net amount of assets invested in the business and the net amount of assets withdrawn for personal use during the fiscal period, this information may be provided from the balances of the Capital and Drawing accounts and proved to be correct by the addition of the net profit or subtraction of the net loss. The illustration at the right shows the method of preparing this analysis from the balances of the Capital and Drawing accounts shown on the Trial Balance, Illustration 10, and the net profit on the Working Sheet. The net profit less the withdrawals is added to the investment to ascertain present capital, that is, present proprietorship.

Analysis of Proprietorship:			
E. B. Tate, Investment.....			\$3500.00
E. B. Tate, Drawing:			
Net Profit.....	\$558.22		
Withdrawals.....	150.00	408.22	
Present Capital.....			\$3908.22

SUMMARY

Each transaction completed during the fiscal period is recorded so as to show its effect on assets, liabilities and proprietorship.* At the close of the fiscal period the net profit and present proprietorship are ascertained from the Trial Balance and the merchandise inventory through the Working Sheet which is an extended form of the Trial Balance. The Balance Sheet and Profit and Loss Statement are two separate written reports submitted to the owner of the business at the close of the fiscal period. The two reports are submitted to the owner at the same time, hence the bookkeeper may prepare either report first.

The Balance Sheet shows the condition of the business at the close of a fiscal period. It contains (a) the name of the owner, the title of the report and date, (b) list of the assets with the total, (c) list of the liabilities with the total, and (d) the proprietorship.

The account form shows the sum of the assets equaling the sum of the liabilities plus the proprietorship. The report form shows the sum of the assets minus the sum of the liabilities equaling the proprietorship.

The Profit and Loss Statement shows full information regarding the net profit or loss for a definite period. It contains (a) the name of the owner, title of the report and period to which the report is applicable, (b) sales, (c) cost of merchandise sold, (d) profit on sales, (e) expense, and (f) net profit.

The Working Sheet is only a convenient form used for ascertaining the net profit and present proprietorship preparatory to preparing the Balance Sheet and Profit and Loss Statement. If the Working Sheet is not used, the Balance Sheet and Profit and Loss Statements are prepared from the account balances on the Trial Balance and the merchandise inventory. The correctness of each is proved through an analysis of proprietorship.

*When the cost of merchandise sold is not recorded in each sale, the amount of the sale is recorded in the Sales account, and the total cost of all merchandise sold is recorded in one amount at the close of the fiscal period.

Exercise 41, Interpretation of Accounts

(ORAL OR WRITTEN)

1. (a) What is the balance of the account in the illustration at the right? (b) Is it an asset or a liability? (c) Will it appear on the left or right side of a Balance Sheet in account form?

A. M. LANE						City		
19	May	10	3	15	76	19	May	21
		17	4	28	45			30
		23	5	8	20			
				21				
				11				

2. (a) What is the balance of the account at the left? (b) How may it be proved to be correct? (c) Does it show an asset or a liability? (d) Could it show a credit balance? (e) Why?

CASH					
19	May	1	1	1000	—
		10	3	234	50
		25	5	379	21

3. (a) What is the balance of the account at the right? (b) Is it an asset or a liability? (c) Will it appear on the left or right side of a Balance Sheet in account form?

LOGAN BROS.						Chicago		
19	May	25	5	250	—	192	May	5
								29
								6
								431 50
								129 54

4. (a) What is the balance of the account at the left? Under what conditions is the balance (b) an asset? (c) a cost? (d) both an asset and a cost? (e) Under what titles and on what reports

PURCHASES					
19	May	4	1	198	75
		5	2	431	50
		16	3	587	61

will the asset and the cost be shown?

5. (a) What is the balance of the account at the right? (b) Is it an asset or a liability? (c) Will it appear on the left or right side of a Balance Sheet prepared in account form?

NOTES RECEIVABLE					
19	May	18	4	50	—
		22	5	75	—

6. (a) What is the balance of the account at the left? (b) Is it an asset or a liability? (c) Will it appear on the left or right side of a Balance Sheet prepared in account form?

NOTES PAYABLE					
19	May	28	5	200	—

7. The debit balance of the Expense account is \$184.00. Will this be shown on the Balance Sheet or Profit and Loss Statement?

8. What information will the bookkeeper need in addition to the Trial Balance for preparing the Balance Sheet and Profit and Loss Statement?

9. How are the assets, liabilities, and proprietorship arranged on the Balance Sheet in which $\text{assets} = \text{liabilities} + \text{proprietorship}$?

10. How are the assets, liabilities, and proprietorship arranged when the Balance Sheet shows the information as $\text{assets} - \text{liabilities} = \text{proprietorship}$?

11. Is there any difference in the facts presented by the account form and report form of the Balance Sheet?

12. Total assets, \$42,500.00; total liabilities, \$15,700.00. What is the proprietorship?

13. What period of time is represented by a Balance Sheet?

14. State the title of a Balance Sheet prepared for G. A. Craft, July 31 of the current year.

15. What period of time is covered by a Profit and Loss Statement?

16. State the title of a Profit and Loss Statement prepared for G. A. Craft, July 31, for an annual fiscal period.

Exercise 42, Working Sheet and Reports

The Trial Balance below shows the account balances resulting from transactions completed by J. C. Parsons, a retail merchant, during the month of March. The merchandise on hand at the close of business, March 31, is given below the Trial Balance. Prepare a Working Sheet, a Balance Sheet in report form showing the present proprietorship, and a Profit and Loss Statement showing the net profit for March.

J. C. PARSONS TRIAL BALANCE, March 31, 19

1	Cash.....	1838 40		
2	Notes Receivable.....	450 75		
3	Robert Shuck.....	117 25		
5	B. R. Layman.....	185 50		
6	Merchandise Inventory.....			
7	Notes Payable.....		300 —	
8	Dodson & Son.....		1265 50	
10	Carson Bros.....		1255 30	
13	J. C. Parsons, Capital.....		3259 —	
14	J. C. Parsons, Drawing.....	200 —		
16	Sales.....		1500 25	
17	Purchases.....	4575 60		
19	Expense.....	212 55		
		7580 05	7580 05	

Notation:
Merchandise Inventory, \$3493.25.

Exercise 43, Balance Sheet and Profit and Loss Statement

From the facts given in the Working Sheet below, prepare a Balance Sheet in report form as in Illustration 14 and a Profit and Loss Statement as in Illustration 15.

S. H. ROSS
WORKING SHEET, February 28, 19

Name of Account	Trial Balance		Adjustment		Balance Sheet		Profit and Loss	
	Dr.	Cr.	Dr.	Cr.	Assets	L. & C.	C. & E.	Income
Cash.....	2464				2464			
Notes Rec.....	500				500			
Accts. Rec.....	1485				1485			
Mdse. Inv.....			4279		4279			
Notes Payable.....		125				125		
Accts. Payable.....		1325				1325		
S. H. Ross, Cap.....		6787				6787		
Sales.....		6426						6426
Purchases.....	9829			4279			5550	
Expense.....	385						385	
	14663	14663	4279	4279	8728	8237	5935	6426
Net Profit.....						491	491	
					8728	8728	6426	6426

Exercise 44, Working Sheet and Reports

The Trial Balance below shows the account balances on the ledger of Walter Green, a retail merchant at the close of the annual fiscal period, December 31 of the current year. Prepare a Working Sheet, Balance Sheet (in report form) and Profit and Loss Statement.

WALTER GREEN
TRIAL BALANCE, December 31, 19

Cash.....	2247 50	
Notes Receivable.....	851 50	
J. L. Bane.....	465 80	
C. H. Loy.....	214 45	
Merchandise Inventory.....		
Notes Payable.....		1000 —
Dodson Bros.....		1451 50
Union Mfg. Company.....		1525 60
Walter Green, Capital.....		5000 —
Walter Green, Drawing.....	3385 25	
Sales.....		28516 90
Purchases.....	25870 10	
Salary Expense.....	2240 —	
Rent Expense.....	1800 —	
Miscellaneous Expense.....	419 40	
	37494 —	37494 —

Notation:
Merchandise Inventory, \$3,155.23

CHAPTER IX

CLOSING THE LEDGER

When the income and expenses are recorded as increases and decreases in the owner's capital account as in Chapter I, the balance of this account will show proprietorship. When the income and expenses are recorded in accounts with Sales, Purchases, and Expense, it is necessary at the close of each fiscal period to close the income and expense accounts into the proprietor's account. The process of closing the income and expense accounts is explained and illustrated in this chapter.

Closing the Ledger. The process of transferring the net profit or net loss shown by the Profit and Loss Statement to the owner's Capital account is referred to as *closing the ledger*. The ledger is closed at the end of each fiscal period.

The process of closing the ledger requires the following:

- (1) An entry to adjust the Purchases account so that its balance will show the cost of merchandise sold.
- (2) An entry to transfer the balance of each income and expense account to a summary account the title of which is *Profit and Loss Summary*.
- (3) An entry to transfer the balance of the Profit and Loss Summary account (net profit or loss) to the account or accounts with the owner.

The entries to adjust and transfer account balances are made in the journal. When these entries have been posted and the accounts that balance ruled, the *ledger is closed*. [The only open accounts after the ledger is closed are the asset, liability and capital accounts; these accounts are shown on the Balance Sheet.]

Closing Entries. The Working Sheet is usually used as a guide for making the entries necessary to close the ledger. The closing entries are made in the same order as the accounts to be closed appear on the Working Sheet. This is usually in the order outlined in the preceding paragraphs.

Method of Closing the E. B. Tate Ledger. Since closing the ledger requires transferring the balance of one account to another, the process can best be understood from illustrations showing the account balances, the transfer entries and the results of posting these entries. The discussion and illustrations in the following paragraphs relate to the ledger of E. B. Tate on pages 81 and 82. The entries are made in the same order as the adjustments and income and expenses appear in the *Adjustments* and *Profit and Loss Statement columns* on the Working Sheet, page 89.

Entry to Adjust the Purchases Account. The balance of the Purchases account including the beginning merchandise inventory shows the total purchases during the fiscal period. This balance is the cost of merchandise sold if there is no closing merchandise inventory. When there is such an inventory, the cost of merchandise sold is the difference between the balance of the Purchases account and the closing merchandise inventory.

In order to show in the Purchases account the cost of sales, the merchandise inventory is transferred from the Purchases account to the Merchandise Inventory account. The transfer is made by subtracting the inventory from Purchases (this is accomplished by crediting the Purchases account) and adding it to the Merchandise Inventory account (this is accomplished by debiting the Merchandise Inventory account). When this entry is posted the balance of the Purchases account which heretofore has shown two things will show only one, that is, the cost of merchandise sold, and the balance of the Merchandise Inventory account will show the value of the asset merchandise.

The illustration at the right shows (a) the Purchases account as it appears in the ledger on page 82, (b) the entry in the journal to record the merchandise inventory, and (c) the accounts in the ledger after this entry has been posted.

The balance of the Merchandise Inventory account now shows the asset value of the merchandise on hand and the balance of the Purchases account, the cost of the goods sold; "Inven." in the explanation column of the Purchases account explains the entry. Since the amount recorded in the Merchandise Inventory account is the value of the inventory, it is not necessary to write "Purchases" in the explanation column.

The next entry in the process of closing the ledger is to transfer the balance of the Sales account to the Profit and Loss Summary account.

To Close the Sales Account. The credit balance of the Sales account shows the income from sales. It is transferred to the Profit and Loss Sum-

*The preceding journal entries were recorded on pages 79 and 80 of this text, hence "81" is used as the next page in the journal.

PURCHASES									
19					19				
May	2		79	2165	42	May	9		79 50
	12		79	1162	90				
	29	4686.27	80	1407	95				
				4736	27				
May 31, 19					Page 81*				
81	Merchandise Inventory.....					4047	82		
82	Purchases.....						4047	82	
	To record the merchandise inventory.								
MERCHANDISE INVENTORY									
19									
May	31		81	4047	82				
PURCHASES									
19					19				
May	2		79	2165	42	May	9		79 50
	12		79	1162	90				
	29	4686.27	80	1407	95	31	Inven.	81	4047 82
		638.45		4736	27				4997 82

mary account. The transfer of the credit balance of the Sales account to the Profit and Loss Summary account is accomplished by subtracting the balance from the Sales account and adding it to the Profit and Loss Summary account. The subtraction is accomplished by a debit to the Sales account and the addition by a credit to the Profit and Loss Summary account.

The illustration at the right shows (a) the Sales account as it appears in the ledger on page 82, (b) the journal entry necessary to transfer the balance of the Sales account to the Profit and Loss Summary account, and (c) the accounts after this entry is posted.

When the journal entry is posted, the Sales account is in balance and is ruled. The credit balance of the Sales account, \$1,405.00, is now recorded on the credit side of the Profit and Loss Summary account.

"Sales" and "P. & L." are written in the explanation columns to show the reasons for the entry.

SALES									
				19					
				May	5		79	198	75
					11		79	118	50
					15		79	247	50
					18		80	562	75
					22		80	118	50
					26		80	159	—
								1405	—
31									
82	Sales.....					1405	—		
83	Profit and Loss Summary....							1405	—
	To close the Sales account.								
SALES									
19				19					
May	31	P. and L.	81	1405	—	May	5	79	198 75
							11	79	118 50
							15	79	247 50
							18	80	562 75
							22	80	118 50
							26	80	159 —
				1405	—				1405 —
PROFIT AND LOSS SUMMARY									
				19					
				May	31	Sales	81	1405	—

The next entry in the process of closing the ledger is to transfer the balance of the Purchases account to the Profit and Loss Summary account.

To Close the Purchases Account. The balance of the Purchases account on page 98, after the value of the merchandise inventory has been recorded on the credit side, shows the cost of the goods sold. If this amount is subtracted from the amount of the sales, the difference will show the income from sales. To make this subtraction, the balance of the Purchases account, \$638.45, is transferred to the Profit and Loss Summary account as a debit. The Profit and Loss Summary account is debited to show subtraction from the sales recorded on the credit side; the Purchases account is credited to indicate that the cost of merchandise sold has been taken from this account and transferred to another account.



The illustration at the left shows (a) the Purchases account as it appears on page 98, (b) the Profit and Loss Summary account as it

PURCHASES									
19						19			
May	2		79	2165	42	May	9	79	50
	12		79	1162	90		31	Inven.	81
	29	4686.27	80	1407	95				4097
				4736	27				82

PROFIT AND LOSS SUMMARY

				19						
				May	31	Sales	81	1405	—	
				31						
83	Profit and Loss Summary	.....				638	45			
82	Purchases	.....						638	45	
	To close the Purchases									
	account.									

PURCHASES									
19					19				
May	2	79	2165	42	May	9	79	50	—
	12	79	1162	90		31	Inven.	81	4047 82
	29	4686.27	80	1407 95		31	P. & L.	81	638 45
			4736	27				4736	27

PROFIT AND LOSS SUMMARY

19						19					
May	31	Pur.	81	638	45	May	31	Sales	81	1405	—

The next entry in the process of closing the ledger is to transfer the balance of the Expense account to the Profit and Loss Summary account.

To Close the Expense Account. If the Profit and Loss Summary account is to summarize all income and expenses, the debit balance of the Expense account must be transferred to the summary account. To make this transfer, it is necessary to credit the Expense account and debit the Profit and Loss Summary account. Profit and Loss Summary is debited because expenses tend to decrease the proprietorship.

The illustration at the left shows the Expense account as it appears in the ledger on page 82 and the Profit and Loss Summary account as it appears

EXPENSE					
19					
May	2	Rent	79	83	33
	31	Salary	80	125	—
				208	33

PROFIT AND LOSS SUMMARY

19						19					
May	31	Pur.	81	638	45	May	31	Sales	81	1405	—

appears after the Sales account has been transferred to it, (c) the entry in the journal to transfer the balance of the Purchases account to the Profit and Loss Summary account and (d) the accounts after this entry has been posted.

The debit balance of the Purchases account now appears on the debit side of the Profit and Loss Summary account. "Pur." is written in the explanation column of the Profit and Loss Summary account and "P. & L." in the Purchases account.

after the sales and cost of sales have been transferred to it as a result of the two preceding closing entries. The journal entry to transfer the

balance of the Expense account to the Profit and Loss Summary account and the Expense and Profit and Loss Summary accounts after this entry is posted are shown at the right. The Expense account is in balance and is ruled as illustrated. The debit balance of the Expense account, \$208.33, now appears on the debit side of the Profit and Loss Summary account. "Expense" and "P. & L." are written in the explanation columns.

	31		
83	Profit and Loss Summary.....	208 33	
82	Expense.....		208 33
	To close the Expense account.		

EXPENSE									
19					19				
May	2	Rent	79	83 33	May	31	P. & L.	81	208 33
	31	Salary	80	125 —					
				208 33					208 33

PROFIT AND LOSS SUMMARY									
19					19				
May	31	Pur.	81	638 45	May	31	Sales	81	1405 —
	31	Expense	81	208 33					

The concluding entry in the process of closing the ledger is to close the Profit and Loss Summary account.

To Close the Profit and Loss Summary Account. The Profit and Loss Summary account shown last in the preceding illustration contains all of the increases and decreases in proprietorship because of the transactions completed by E. B. Tate and recorded in the ledger on pages 81 and 82. The credit balance is the net increase in proprietorship or net profit. This agrees with the Profit and Loss Statement, Illustration 15, page 92.

The Profit and Loss Summary account may be closed by transferring its balance to the Capital account or by transferring a sufficient amount of the profit to the Drawing account to close that account and by transferring the remainder to the Capital account.

The Capital and Drawing accounts as they appear in the ledger on page 82 and the Profit and Loss Summary account after the Expense account has been closed into it are shown at the right. The entry to transfer the balance of the Summary account to the Drawing and Capital accounts is illustrated on page 102.

E. B. TATE, CAPITAL

	19		
May	1		79 3500

E. B. TATE, DRAWING

19			
May	9	79	50 —
	16	79	100 —
			150

PROFIT AND LOSS SUMMARY

19					19				
May	31	Pur.	81	638 45	May	31	Sales	81	1405 —
	31	Expense	81	208 33					

The journal entry required to transfer the balance of the Profit and Loss Summary account to the Drawing and Capital accounts and the results of posting this entry are shown in the illustration at the right. The Profit and Loss Summary account is debited as the net profit is subtracted from this account. The Drawing and Capital accounts are credited as the net profit is added to these accounts. The Profit and Loss Summary and Drawing accounts are in balance and are ruled as in the illustration. The profit to remain in the business is recorded in the Capital account.

		31							
83	Profit and Loss Summary.....			558	22				
82	E. B. Tate, Drawing.....							150	—
82	E. B. Tate, Capital.....							408	22
	To close the Profit and Loss Summary account.								

E. B. TATE, CAPITAL

				19					
		✓	3908	22	May	1		79	3500 —
					31	P. & L.	81	408	22
			3908	22				3908	22
					June	1	Pres Cap	✓	3908 22

E. B. TATE, DRAWING

19					19				
May	9		79	50 —	May	31	P. & L.	81	150 —
	16		79	100 —					
				150 —					150 —

PROFIT AND LOSS SUMMARY

19					19				
May	31	Pur.	81	638 45	May	31	Sales	81	1405 —
	31	Expense	81	208 33					
	31	Drawing	81	150 —					
	31	Capital	81	408 22					
				1405 —					1405 —

The balance of the Capital account shows the present capital. The Capital account may be *balanced* as shown in the illustration and explained on page 107.

Exercise 45, Closing Entries
(ORAL OR WRITTEN)

The accounts in connection with the following questions appear on the ledger of A. W. Mann at the close of the monthly fiscal period, August 31.

1. The Purchases account at the right shows the purchases during a fiscal period. (a) State the entry necessary to record the merchandise inventory of \$725.00. (b) What entry will be required to transfer the balance of this account to the Profit and Loss Summary account?

PURCHASES

19					19				
Aug.	2		22	629 50	Aug.	3		22	50 —
	15		22	320 50					
	31		22	450 —					
				1400					

1423 575
123,09103

4 sales returns during a fiscal period. State the entry necessary to transfer the balance to the Profit and Loss Summary account.

EXPENSE

PROFIT AND LOSS SUMMARY

(b) To what account or accounts will it be transferred? (c)

A. W. MANN, DRAWING

A. W. MANN, CAPITAL

credited for the first entry on the debit side? (c) What account was probably debited for the second entry on the credit side? (d)

Where is the corresponding credit for the second entry on the debit side of the Capital account?

Adjusting and Closing Entries. The illustration below shows the adjusting and closing entries discussed and illustrated on pages 98 to 102, recorded in consecutive order. The first entry adjusts the Purchases account and records the merchandise inventory and cost of sales. The second, third and fourth entries transfer the balances of the Purchases, Sales and Expense accounts to the Profit and Loss Summary account, and the fifth, the balance of the Profit and Loss Summary account to the Capital and Drawing accounts.

PAGE 81

May 31, 19

81	Merchandise Inventory	404782	
82	Purchases		404782
	To record the merchandise inventory		
	31		
82	Sales	1405 -	
83	Profit and Loss Summary		1405 -
	To close the Sales account		
	31		
83	Profit and Loss Summary	63845	
82	Purchases		63845
	To close the Purchases account		
	31		
83	Profit and Loss Summary	20833	
82	Expense		20833
	To close the Expense account		
	31		
83	Profit and Loss Summary	55822	
82	E. B. Tate, Drawing		150 -
82	E. B. Tate, Capital		40822
	To close the Profit and Loss Summary account		

Illustration 16, Adjusting and Closing Entries

The Ledger Closed. Illustration 17 on pages 105, 106 and 107 shows the ledger after the above adjusting and closing entries have been posted, the accounts ruled and the Capital and Cash accounts balanced. This ledger shows the same information as the ledger on pages 81 and 82 but with the adjusting and closing entries recorded.

The open account balances provide the information for the equation "Assets = Liabilities + Proprietorship."

Cash

May 1	79	3500 -	May 2	79	8333
18	80	56275	3	79	1500 -
23	80	100 -	16	79	100 -
27	2089.00	80 422275	20	80	36542
			31	80	125 -
					217375
		426275			426275
June 1 Balance	✓	2089 -			

Notes Receivable

May 29 20 days	80	14750			
----------------	----	-------	--	--	--

A. T. Miller

1214 Walnut St. City

May 5	79	19875	May 27	80	100 -
22	217.25	80 11850			
		31725			

C. A. Adams

932 Day St. City

May 11 30 days	79	11850			
26 60 days	80	159 -			
		27750			

James B. Fall

617 Davis Ave. City

May 15	79	24750	May 23	80	100 -
			29 20 day note	80	14750

Merchandise Inventory

May 31	81	404782			
--------	----	--------	--	--	--

Notes Payable

May 27 30 days	80	300 -			
----------------	----	-------	--	--	--

Lobbs Bros.

Dayton, Ohio.

May 3	19	1500 -	May 2	79	216542
20	80	36542	29 May 27, 60 days	80	140795
27 30-d-y note	80	300 -			

Grant Mfg. Co.

420 Spring St. City

May 12	May 11, 30 days	79	116290
--------	-----------------	----	--------

E. B. Tate, Capital

May 1		79	3500 -
31 P.L. Summary	81		40822
		390822	390822
June 1 Present Capital	✓		390822

E. B. Tate, Drawing

May 9	79	50 -	May 31 P.L. Summary	81	150 -
16	79	100 -			
		150 -			150 -

Sales

May 31 P.L. Summary	81	1405 -	May 5	79	19875
			11	79	11850
			15	79	24750
			18	80	56275
			22	80	11850
			26	80	159 -
		1405 -			1405 -

Purchases

May 2	79	216542	May 3	79	50 -
12	79	116290	31 Inventory	81	404782
29	406.27	80	31 P.L. Summary	81	63845
		473627			473627

Expense

May 2 Rent	79	8333	May 31 P.L. Summary	81	20833
31 Clerk's Salary	80	125 -			
		20833			20833

Profit and Loss Summary

¹⁷ May 31	Purchases	81	638 45	¹⁹ May 31	Net Sales	81	1 405 -
31	Expense	81	208 33				
31	Drawing	81	150 -				
31	Capital	81	408 22				
			1 405 -				1 405 -

Illustration 17, Ledger Closed, Page 83

Post-closing Trial Balance. A Trial Balance prepared from the ledger after the closing entries have been recorded in it and the accounts in balance ruled is referred to as a *Post-closing Trial Balance*.

Illustration 18 below is a Post-closing Trial Balance prepared from the ledger, Illustration 17 on pages 105 and 106. It shows that the ledger is in balance and contains the same facts as the Balance Sheet on page 91.

E. L. Tate
Post-closing Trial Balance, May 31, 19

81	Cash	2089 -	
81	Notes Receivable	147 50	
81	A. T. Miller	217 25	
81	C. A. Adams	277 50	
81	Merchandise Inventory	4047 82	
81	Notes Payable		300 -
81	Dobbs Bros		1407 95
81	Grant Mfg. Co		1162 90
81	E. L. Tate, Capital		3908 22
		6779 07	6779 07

Illustration 18, Post-closing Trial Balance

Balancing an Account. When it is desired to rule an account which does not balance and carry the balance down below the ruling on the same page or forward it to a new page, the process is referred to as *balancing* the account. It is customary at the close of the fiscal period to balance the Cash account and the owner's Capital account. The method of balancing these accounts is shown in the illustrations on pages 105 and 106.

SUMMARY

The ledger is closed at the end of the fiscal period. The purpose of closing the ledger is to record the net profit in the Capital account. The Work-
 ing Sheet is used as a basis for the closing entries.

The cost of sales is recorded on the ledger by recording the merchandise inventory as a debit to the Merchandise Inventory account and a credit to the Purchases account. The cost of merchandise sold, sales, and expenses are summarized in the Profit and Loss Summary account which is a temporary account, opened and closed in connection with the ledger closing. The balance of the Profit and Loss Summary account is transferred to the Capital and Drawing accounts or the Capital account.

When the adjusting and closing entries have been recorded in the journal and ledger, the open accounts in the ledger will provide the needed information for the equation "Assets = Liabilities + Proprietorship."

Exercise 46, Closing the Ledger

The accounts in the ledger below contain a record of the transactions completed by Walter Tull, a retail merchant, during the first monthly fiscal period beginning April 1 and ending April 30. Copy these accounts on ledger paper. Prepare a Working Sheet, Balance Sheet, and Profit and Loss Statement; cash balance, \$1,182.25; merchandise inventory, \$1,143.55; net profit, \$325.80. Prepare the adjusting and closing entries and post. Rule all accounts that balance and balance the Cash and Capital accounts.

CASH										
19						19				
April	1		1	2000	—	April	2	1	80	—
	8		1	381	25		3	1	1680	—
	10		1	11	50		5	1	48	75
	12		1	55	75		15	1	45	—
	18		2	291	50		27	2	4	50
	25		2	345	50		30	2	45	—

WALTER TULL, CAPITAL									
						19			
						April	1		
								1	2000
									—

SALES										
19						19				
April	27	Return	2	4	50	April	8	1	381	25
							12	1	55	75
							18	2	291	50
							25	2	345	50

PURCHASES											
19						19					
April	3		1	1680	—	April	10	Return	1	11	50
	5		1	48	75						

RENT EXPENSE									
19									
April	2		1	80	—				

SALARY EXPENSE									
19									
April	15		1	45	—				
	30		2	45	—				

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1/12/2011

PRACTICE SET No. 1
RETAIL CLOTHING BUSINESS
R. B. ALLEN, PROP.

The purpose of this set is to provide additional practice in recording transactions so as to show their effect on assets, liabilities and proprietorship. The transactions are to be recorded in the journal and posted to the ledger provided for the set in connection with the exercise blanks; see inside front cover of these blanks. Loose journal and ledger paper may be used if desired.

The transactions to be recorded are representative of those which would be completed in a business of a similar nature.

There are two methods of presenting the lessons in bookkeeping, one through short exercises which develop specific methods of bookkeeping procedure and the other through recording the transactions in a practice set combining the various procedures presented in the short exercises. For this reason the transactions to be recorded in this practice set are a review, providing an opportunity to apply all of the lessons in bookkeeping procedure presented in previous discussions. A knowledge of bookkeeping procedure is of little value unless one can apply it to the recording of transactions completed by a business.

February 1

No. 1. R. B. Allen invested \$2,500.00 cash in the retail clothing business.

The purpose of this cash investment is to provide money for purchasing merchandise and paying the operating expenses of the business. Mr. Allen will need more than \$2,500.00 to provide the necessary capital for operation but can obtain a part of this needed capital by buying merchandise on credit.

No. 2. Employed two clerks, James Ball, \$35.00 per week, and C. A. Duggan, \$25.00 per week. *regular monthly*

No. 3. Paid \$100.00 in cash to C. L. Hull for rent of the building at 410 Main Street for month of February.

The purpose of this payment of cash is to secure a home for the business. Should Mr. Allen require a receipt, it would be in the same form as the one illustrated on page 75.

It is desired to show expenses incident to rent and salaries in separate accounts, hence, "Rent Expense" will be debited for the rent paid.

*Dr. Rec. on Liab.
Jan. " " "*

February 2

No. 4. Purchased a stock of clothing and haberdasheries from the Globe Clothing Company, City, invoice of this date, \$1,640.50. The agreement was to pay cash for one-half of this purchase upon delivery of the goods and the remainder within 30 days. The purchases invoice received was similar to the one illustrated on page 75.

1/2 cash on delivery, bal. 30 da.
Through this transaction, Mr. Allen increases the assets the amount of the purchase. No entry for the cash will be made until it is paid when the goods are delivered.

February 3

No. 5. The merchandise purchased from the Globe Clothing Company has been delivered. Paid this firm \$820.25 as per agreement.

Mr. Allen now has less cash and owes the Globe Clothing Company less.

No. 6. Sold C. A. Walker, 325 Chestnut St., City, terms 10 days, sales ticket No. 1, one overcoat, \$75.00, 2 shirts at* \$2.50. *10.00*

Record this entry in the journal like the fifth entry on page 79. The explanation should be, "Sales ticket No. 1, 10 days". It is not necessary to describe the items in the entry because these are described in the sales ticket, a copy of which was retained by Mr. Allen.

February 4

Buy Sapiro
No. 7. Purchased merchandise from the Sapiro Clothing Company, City, terms 10 days, invoice dated today, \$187.50.
Invoice of Feb 4, Terms 10 days.

February 5

No. 8. Sold merchandise to charge customers as follows:

B. A. Stein, 116 Smith St., City, sales ticket No. 2, \$62.50.

W. Sales.
W. R. Hall, 51 Fern St., City, terms 15 days, sales ticket No. 3, \$83.75.

No terms in the first sale indicate that the customer should pay the bill on or before the first of the month; the terms in the second sale indicate that the customer should pay the bill on the 20th.
Sales ticket No. 2

February 6

No. 9. Received \$452.85 for cash sales to date.

This transaction results in an increase in the asset cash and an increase in sales.

No. 10. Paid James Ball \$35.00 and C. A. Duggan \$25.00, salaries for the week.
6

Debit Salary Expense and credit Cash in one amount for the two salaries. The explanation is "Paid clerks' salaries for the week".
Cash Exp.

Post the transactions completed this week, and prove cash. The cash balance is \$1,972.60. Arrange the accounts as instructed on the inside front cover of the ledger. If loose paper is used, arrange the accounts in the same order as in Illustration 9 on pages 81 and 82. Allow twenty lines for the Cash account, eight lines for R. B. Allen, Capital, fifteen lines for the Sales account, ten lines for the Purchases account, nine lines each for the Salary Expense, Miscellaneous Expense and Profit and Loss Summary accounts, and five lines for each of the other accounts.

*When the word "at" appears between the number of units and the price, it indicates that the price is per unit; without this word, the price applies to the entire quantity. "2 shirts at \$2.50" is equivalent to "2 shirts at \$2.50 each, total \$5.00". Had the statement been "2 shirts, \$2.50," the total sale would have been \$2.50.

February 8

No. 11. Sold Walter Baer, 1125 Third Ave., City, terms 10 days, sales ticket No. 4, \$121.65.

No. 12. Paid the Excelsior Tie Company \$65.50 for ties purchased from them and delivered today.

February 9

No. 13. R. B. Allen withdrew \$100.00 in cash for personal use.

February 10

No. 14. Purchased merchandise on credit as follows:

Globe Clothing Co., City, terms 30 days, invoice of the 9th, \$342.50.

Brown & King, Dayton, terms 10 days, invoice of the 8th, \$182.75.; to be delivered by their truck.

Merchandise purchased from business firms in the city is delivered by truck. When the merchandise is purchased from a firm in another city, the purchaser may expect to pay the freight unless the seller has agreed to make delivery. It may be assumed that Dayton is a nearby city and that Brown & King maintain a delivery service free to their customers.

February 11

No. 15. One dozen shirts purchased from Brown & King on the 10th for \$16.50 were not the style ordered. Returned them by express collect.

det. balance in Exp. of Ledger

February 12

No. 16. Received \$50.00 from C. A. Walker to apply on account.

No. 17. Sold Walter Baer, City, sales ticket No. 5, \$120.00. Received cash for one-half of this amount, balance to be paid within 10 days.

Record as in the entries shown at the top of page 55.

February 13

No. 18. Received \$365.40 for cash sales during the week.

No. 19. Paid \$65.00 for services as follows:

65.00

Clerks' salaries for the week, \$60.00.

Delivering merchandise \$5.00.

Expenses which can not be classed as rent expense or salary expense are entered in the general expense account under the title Miscellaneous Expense.

Post the transactions for the week and prove cash, balance \$2,217.50.

February 15

No. 20. Gave the Sapiro Clothing Company a 30-day note for \$187.50, balance due Sunday, February 14.

Feb. 15

February 16

No. 21. Purchased merchandise from Brown & King, terms 15 days, invoice of the 15th, \$107.60.

No. 22. R. B. Allen withdrew \$60.00 cash for personal use.

February 17

No. 23. Received a letter from B. A. McDaniels, Concord, with \$40.00 inclosed and a request to ship him by parcel post, one suit of clothes and one overcoat which he had selected when he called at the store last week. C. A. Duggan made out sales ticket No. 6 for \$90.00, the sale price, and shipped the clothes.

Paid 60c for stamps used to mail the package and charged the amount to B. A. McDaniels. Mr. McDaniels said he would pay the balance when he received his monthly pay-check, February 26.

February 18

No. 24. Received cash from Walter Baer in full for sale of February 8.

No. 25. Paid Brown & King balance due for purchase of February 10.

February 19

No. 26. Purchased merchandise from Brown & King, terms 20 days, invoice of the 18th, \$125.30.

February 20

No. 27. Paid Globe Clothing Company one-half of balance remaining unpaid on purchase of February 2. Consider one-half of the 25c to be 13c.

No. 28. Received from W. R. Hall \$50.00 on account of sale of February 5 with the promise to pay the balance February 27. Sold him the merchandise listed on sales ticket No. 7, \$35.50.

Two entries should be made to record this transaction as illustrated on page 55.

No. 29. Cash sales to date, \$299.85.

No. 30. Paid expenses as follows:

Clerks' salaries for the week, \$60.00.

Cleaning windows, \$1.50.

Post the transactions for the week and prove cash, balance \$2,030.52.

February 22

✓ No. 31. Sold merchandise to charge customers:

W. R. Hall, terms 10 days, sales ticket No. 8, \$48.50.

C. W. Rogers, 406 O St., City, sales ticket No. 9, \$75.25.

No. 32. Received cash from charge customers:

C. A. Walker, on account of sale of February 3, \$15.00. ✓

Walter Baer in full of sale of February 12.

February 23

No. 33. B. A. Stein returned one shirt sold him on the 5th and asked credit for \$1.25. He also paid \$20.00 on account. Credit was allowed for the shirt which he returned as requested and the shirt was placed in stock.

February 25

No. 34. Returned to Brown & King, one dozen collars which the clerk reported included with the merchandise received from them but not listed on the purchases invoice. Paid delivery boy 25c cash to return the collars. It is quite evident that the 25c should be charged to Brown & King. □

February 26

No. 35. Sales of merchandise on account: *57.15*

B. A. Stein, sales ticket No. 10, \$58.10.

Walter Baer, sales ticket No. 11, \$121.65.

February 27

No. 36. Received from B. A. McDaniels \$10.60 in cash and a 30-day note for \$40.00 in payment for balance due on purchase of the 17th.

No. 37. Received \$316.58 for cash sales during the week. *B. A.*

No. 38. Paid cash as follows:

Clerks' salaries for the week, \$60.00. *Cash*

Telephone services, \$3.50. *Rate R.*

Gas and Electric, \$5.75. *9.25 Cash*

Instructions. (1) Post the transactions for the week, prove cash, balance \$2,383.20, and prove the posting by a Trial Balance.

(2) Prepare a Working Sheet from the account balances on the Trial Balance and the merchandise inventory, \$887.65.

(3) Prepare a Balance Sheet (report form) and Profit and Loss Statement from the Working Sheet.

(4) Record in the journal the entries necessary to close the ledger in the same form as explained and illustrated in this chapter.

(5) Balance the Cash and Capital accounts.

(6) Prepare a Post-closing Trial Balance.

60

*698.
5-11.25
98*

*17.8
20.50*

Exercise 47, Closing the Ledger

The accounts in the ledger below contain a record of the transactions completed by W. B. Hall, a retail merchant, during the first monthly fiscal period beginning July 1 and ending July 31.

CASH											
19 July	1		1	1500	—	19 July	2		1	60	—
	5		1	745	35		3		1	1182	25
	14		1	349	15		10		1	924	50
	20		2	626	75		16		2	4	50
							31		2	76	50
W. B. HALL, CAPITAL											
						19 July	1		1	1500	—
SALES											
						19 July	5		1	745	35
							14		1	349	15
							20		2	626	75
PURCHASES											
19 July	3		1	1182	25						
	10		1	924	50						
EXPENSE											
19 July	2		1	60	—						
	16		2	4	50						
	31		2	76	50						

Instructions. (1) Copy these accounts on ledger paper.

(2) Prepare a Working Sheet, Balance Sheet, and Profit and Loss Statement; cash balance, \$973.50; merchandise inventory, \$802.00; net profit \$275.50. Prepare the adjusting and closing entries and post. Rule all accounts that balance and balance the Cash and Capital accounts.

CHAPTER X

PURCHASES JOURNAL AND SALES JOURNAL

The method of recording transactions in the journal, posting and taking a Trial Balance has been developed in previous chapters. The discussion in this chapter relates to a more efficient method of recording transactions and posting. Short-cut methods are advantageous to the bookkeeper because they increase the value of his services through enabling him to perform a greater volume of work.

Special Journals. All transactions may be recorded in one journal. When this plan is followed, it is necessary to write the name of the account debited and the amount, the name of the account credited and the amount and the explanation for each transaction. When a number of transactions affect the same account in the same way, much time and space can be saved by recording them in a special journal the total of which may be posted to this one account. The title of a special journal is the title of the account to which the total is posted.

In a mercantile business the transactions of more frequent occurrence are those in connection with the purchases and sales of merchandise and the receipts and payments of cash. The special journals used in a mercantile business are the purchases journal, sales journal, cash receipts journal and the cash payments journal. The use of these special journals saves time when transactions are being recorded and posted. When the volume of business is such that one bookkeeper can not record all the transactions, two or more bookkeepers may be employed, each being assigned the work required in connection with recording the transactions in one or more journals.

Purchases Journal. A special journal in which only purchases of merchandise on account are recorded is referred to as the *purchases journal*. The title of this journal indicates that the total is to be posted to the debit side of the Purchases account.

The information needed in order to make a record of merchandise purchased on account is (a) the date of entry, (b) the increase in the asset merchandise because of the purchase, (c) the name and address of the person or firm from whom the purchase was made, (d) the terms including the date of the invoice if payment is to be made in a definite number of days, and (e) the increase in the liability accounts payable because of the purchase.

The desired information is obtained from a list of the merchandise prepared by the seller, usually referred to by the purchaser as a *purchases invoice* and similar to the form illustrated on page 75.

With the proper ruling in the purchases journal it is possible to record all the desired information for one purchase on one horizontal line.

Recording Transactions in the Purchases Journal. The method of recording transactions in the purchases journal and the advantage of its use are further explained by illustration.

During the month of May, E. B. Tate, a retail furniture dealer, purchased merchandise on credit as follows:

- 2. Dobbs Bros., Dayton, Ohio, terms cash \$1,500.00, balance 20 days, invoice of this date, \$2,165.42.
- 12. Grant Manufacturing Co., 420 Spring St., City, terms 30 days, invoice dated May 11, \$1,162.90.
- 29. Dobbs Bros., terms 30 days, invoice dated May 27, \$1,407.95.

Each of these transactions increases the asset merchandise and increases the liability accounts payable the amount of the purchase.

The method of recording these transactions in journal form is shown in the illustration at the right. It will be observed that at least four lines are required for each entry in the journal and that the title of the account debited in each entry is "Purchases".

The effect of these transactions on assets and liabilities, and the additional information needed as recorded in the purchases journal is shown in Illustration 19. The information regarding each purchase is recorded on one line in the purchases journal.

May 2, 19				
117	Purchases	2165 42		
117	Dobbs Bros., Dayton, Ohio. Invoice of May 2, Cash \$1500.00, balance 20 days.		2165	42
	12			
117	Purchases	1162 90		
117	Grant Mfg. Co., City..... Invoice of May 11, 30 days		1162	90
	29			
117	Purchases	1407 95		
117	Dobbs Bros. Invoice of May 27, 30 days		1407	95

May, 1919 page 21 post each month

PURCHASES JOURNAL

DATE	ACCOUNT CREDITED	ADDRESS	TERMS	INV DATE	AMOUNT
2	117 Dobbs Bros	Dayton, Ohio	Cash \$1500 Balance 20 days	5/2	2165 42
12	117 Grant Mfg. Co	420 Spring St. City	30 days	5/11	1162 90
29	117 Dobbs Bros		30 days	5/27	1407 95
31	117 Purchases Dr	Total Purchases			4736 27

Illustration 19, Purchases Journal

Posting from the Purchases Journal. Each amount in the "Amount" column is posted to the credit side of the account with the creditor whose name is on the same line. This records in the ledger the increase in liabilities. The date, terms, page and initial (P) of the purchases journal are written in the appropriate columns in the ledger.

The page of the ledger is written in the folio column of the purchases journal, to indicate posting. The posting to the accounts with creditors is usually daily.

At the end of the month or whenever a Trial Balance is to be taken, the purchases journal is ruled and footed as shown in Illustration 19. The total of the "Amount" column, which is the sum of the credits, is posted to the debit of the Purchases account to record the increase in purchases. The page of the Purchases account in the ledger is written in the folio column of the purchases journal to indicate that the total has been posted. The ruling of the purchases journal is shown in Illustration 19 and the posting in the accounts at the bottom of this page.

The initial of the book of original entry may be written in the folio column with the page number, or in the explanation column as illustrated below.

19

May

2

29

Cash \$1500.00

Bal. 20 days

5/27 30 ds.

116

2165

42

116

1407

95

3573

37

DOBBS BROS.

Dayton, Ohio

GRANT MFG. Co.

420 Spring St., City

19

May

12

5/11 30 ds

116

1162

90

PURCHASES

19

May

2

12

29

116

2165

42

116

1162

90

116

1407

95

4736

27

on page 116 are shown at the left and the accounts resulting from posting the purchases journal, Illustration 19, are shown in the illustration at the right. The process of posting from the journal as illustrated at the left is the same as that described on page 36.

19

May

31

P

116

4736

27

DOBBS BROS.

Dayton, Ohio

GRANT MFG. Co.

420 Spring St., City

19

May

12

5/11 30 ds. P

116

2165

42

116

1162

90

PURCHASES

19

May

2

12

29

Cash \$1500.00

Bal. 20 days P

5/27 30 ds. P

116

2165

42

116

1407

95

3573

37

A comparison of the above ledger with the one below shows that the information in the account with each creditor is the same, but that the Purchases account in the one on the left has three amounts recorded, while the one on the right has only one amount. Thus a saving of two lines in the ledger is effected as well as the time required to post these two amounts

and to indicate the posting. This further emphasizes the saving in time through the use of the purchases journal as a book of original entry for recording transactions in which merchandise is purchased on credit.

The illustration at the right is a Trial Balance prepared from either ledger on page 117.

The final results as shown in the account balances are the same whether the purchases are recorded in the purchases journal or in the one journal.

E. B. TATE

TRIAL BALANCE, May 31, 19

117	Dobbs Bros.			3573 37
117	Grant Mfg. Co.			1162 90
117	Purchases	4736 27		
		4736 27	4736 27	

Exercise 48, The Purchases Journal

(ORAL OR WRITTEN)

- Purchased merchandise from B. A. Ames, Toledo, terms 30 days, \$350.00.
 - What accounts are debited and credited?
 - State the entry to record this transaction in the journal;
 - the purchases journal.
- The total of the purchases journal, March 31, is \$4,165.22. How will this be posted?
- The debit column of the Trial Balance, March 31 (Question 2), was \$10.00 more than the credit column. This resulted from an error in the addition of the purchases journal. What was the correct amount of the purchases for March?
- During the month of May, H. M. Lowe, a retail merchant, made 320 purchases of merchandise on credit. How many lines would be required to record these transactions in (a) the journal with four lines for each entry? (b) the purchases journal similar to Illustration 19? How many lines would be required in the Purchases account to post from (c) the journal? (d) the purchases journal? (e) If there are 80 horizontal lines on the two sides of a sheet in the ledger and books of original entry, about how many pages would be saved through the use of the purchases journal?
- April 9. Purchased merchandise from H. T. Harris, Rochester, terms 60 days from June 1 next, \$485.75. State this transaction recorded in (a) the purchases journal; (b) the account with the creditor. (c) When will this purchase be due?

Exercise 49, Posting from the Purchases Journal

The purchases journal at the top of page 119 shows a record of the purchases made during the month of January by H. H. Goodman, a retail grocer.

Instructions. Post (allow five lines for each account), and prove the posting by a Trial Balance.

Exercise 49—Continued

PURCHASES JOURNAL

January 19

DATE	L. F.	ACCOUNT CREDITED	ADDRESS	TERMS	INV. DATE	AMOUNT
2		Brown & Co.	Elmwood		1/2	77.30
3		Knox Bros.	City		1/2	134.95
10		Hagen & Lockhart	Danville		1/8	228.60
15		Brown & Co.			1/13	226.—
17		Lake View Creamery	Lake View	20 days	1/14	28.—
23		J. Allen Smith & Co.	Rockford	10 days	1/21	197.10
27		Donaldson Bros.	City		1/26	172.75
31		Purchases Dr.	Total Purchases			1044.70

THE SALES JOURNAL

Sales Journal. A special journal in which only charge sales are recorded is referred to as the *sales journal*. The title of this journal indicates that the total is to be posted to the credit of the Sales account.

The information needed in connection with a sale on account is (a) the date of the entry, (b) the increase in the asset accounts receivable, (c) the name and address of the person or firm to whom the sale was made, (d) the terms, if special, (e) the increase in sales.

The charge customer is given a list of the merchandise purchased by him in the form of a sales ticket or a sales invoice as illustrated on pages 76 and 174. A copy of this list is used as a basis for the entry in the sales journal. The sales tickets or sales invoices are numbered consecutively; the copies are filed by number for reference.

With the proper ruling in the sales journal all needed information for one sale may be recorded on one line. If desired, the carbon copies of the sales invoices punched to fit a loose leaf binder and filed numerically may constitute the sales journal. In either case the copy of the sales ticket or sales invoice provides the basis for the sales journal.

Recording Transactions in the Sales Journal. The method of recording transactions in the sales journal and the advantage of its use are further explained by illustration.

During the month of May, E. B. Tate, a retail furniture dealer, completed the following sales of merchandise on credit. When no terms are stated, the amount is due the first of the following month as explained on page 47. The terms on a sale of this nature are sometimes referred to as "on account".

5. A. T. Miller, 1214 Walnut St., City, sales ticket No. 1, \$198.75.
11. C. A. Adams, 932 Day St., City, terms 30 days, sales ticket No. 2, \$118.50.
15. James B. Fall, 617 Davis Ave., City, sales ticket No. 3, \$247.50.

22. A. T. Miller, sales ticket No. 4, \$118.50.

26. C. A. Adams terms 60 days, sales ticket No. 5, \$159.00.

Each of these transactions increases the asset accounts receivable and increases the income sales the same amount.

The illustration at the right shows the method of recording these transactions in the journal. Four lines are required for each entry and the title of the account credited in each is "Sales".

The effect of these transactions on the accounts receivable and sales and the additional information needed are shown recorded in the sales journal, Illustration 20 below. The information regarding each sale is recorded on one line in the sales journal.

May 5, 19					
121	A. T. Miller, 1214 Walnut St..	198	75		
121	Sales.....			198	75
	Sale No. 1.				
	11				
121	C. A. Adams, 932 Day St....	118	50		
121	Sales.....			118	50
	Sale No. 2, 30 days.				
	15				
121	James B. Fall, 617 Davis Ave.	247	50		
121	Sales.....			247	50
	Sale No. 3.				
	22				
121	A. T. Miller.....	118	50		
121	Sales.....			118	50
	Sale No. 4.				
	26				
121	C. A. Adams.....	159	—		
121	Sales.....			159	—
	Sale No. 5, 60 days.				

SALES JOURNAL

May 19							
DATE	L. F.	ACCOUNT DEBITED	ADDRESS	TERMS	SALE NO.	AMOUNT	
5	121	A. T. Miller	1214 Walnut St. City		1	198	75
11	121	C. A. Adams	932 Day St. City	30 days	2	118	50
15	121	James B. Fall	617 Davis Ave. City		3	247	50
22	121	A. T. Miller			4	118	50
26	121	C. A. Adams		60 days	5	159	—
31	121	Sales Cr	Total Sales			842	25

Illustration 20, Sales Journal

Posting from the Sales Journal. Each amount in the "Amount" column of the sales journal is posted to the debit side of the account with the charge customer whose name is on the same line. This records on the ledger the increase in the asset accounts receivable. The date, terms, page and initial (S) of the sales journal are written in the appropriate columns in the ledger.

The ledger page is written in the folio column of the sales journal to indicate posting. The posting to the accounts with customers is usually daily.

At the end of the month or whenever a Trial Balance is to be taken, the sales journal is ruled and footed as shown in Illustration 20. The total of the "Amount" column, which is the sum of the debits, is posted to the credit of the Sales account to record the increase in sales. The page of the Sales account in the ledger is written in the folio column of the sales journal to indicate that the total has been posted. The ruling of the sales journal is shown in Illustration 20 and the posting in the accounts at the bottom of this page.

A. T. MILLER 1214 Walnut St., City									
19									
May	5		120	198	75				
	22		120	118	50				
				317	25				
C. A. ADAMS 932 Day St., City									
19									
May	11	30 days	120	118	50				
	26	60 days	120	159	—				
				277	50				
JAMES B. FALL 617 Davis Ave., City									
19									
May	15		120	247	50				
SALES									
				19					
				May	5	120	198	75	
					11	120	118	50	
					15	120	247	50	
					22	120	118	50	
					26	120	159	—	
							842	25	

A comparison of the ledger at the left above with that at the right below shows that both contain the same account balances. The Sales account resulting from posting the journal contains five amounts on the credit side while the Sales account in the other ledger contains the sum of these five amounts stated in one amount. This illustrates the efficiency of the sales journal through a saving of time and space.

A. T. MILLER 1214 Walnut St., City									
19									
May	5		S1	198	75				
	22		S4	118	50				
				317	25				
C. A. ADAMS 932 Day St., City									
19									
May	11	30 days	S2	118	50				
	26	60 days	S5	159	—				
				277	50				
JAMES B. FALL 617 Davis Ave., City									
19									
May	15		S3	247	50				
SALES									
				19					
				May	31		S1	842	25

The illustration at the left is a Trial Balance prepared from either ledger on page 121. The final results as shown in the account balances are the same whether the sales are recorded in the sales journal or in the one journal.

E. B. TATE
TRIAL BALANCE, May 31, 19

121	A. T. Miller.....	317	25		
121	C. A. Adams.....	277	50		
121	James B. Fall.....	247	50		
121	Sales.....			842	25
		842	25	842	25

Exercise 50, The Sales Journal
(ORAL OR WRITTEN)

1. Sold merchandise to C. H. Steele, Memphis, terms 10 days, \$127.50.
(a) What accounts are debited and credited? State the entry to record this transaction in (b) the journal; (c) the sales journal.
2. The total of the sales journal, April 30, is \$5,420.75. How will this be posted?
3. The debit column of the Trial Balance, April 30 (Question 2), was \$10.00 more than the credit column. This resulted from an error in the addition of the sales journal. What was the correct amount of the sales for April?
4. April 15. Sold merchandise to C. O. Parsons, Atlanta, terms 30 days from June 1 next, \$325.50. State this transaction recorded in (a) the sales journal; (b) the account with the customer; (c) When will this sale be due?
5. State the posting for each entry in the sales journal given below.

April 19

Date	L.F.	Account Debited	Address	Terms	Sale No.	Amount
3		Morton Bros.	516 Elm St., City	20 days	316	1098 76
15		Huber Mfg. Co.	Syracuse	90 days	317	564 21
17		Dawson & Co.	Springfield	30 days	318	307 65

6. The sales journal contains five entries with amounts as follows: \$36.27, \$55.14, \$29.18, \$17.26, and \$104.71. (a) State the method of posting the total. (b) If the total posted is \$243.57, what effect will the error have on the Trial Balance?
7. What would be the entry in journal form for each entry in the sales journal illustrated below?

May 19

Date	L.F.	Account Debited	Address	Terms	Sale No.	Amount
1		Robert A. Cox	Millville	30 days	116	62 55
2		B. L. Simpson	Jonesboro	30 days	117	52 96

Exercise 51, Posting from the Sales Journal

The sales journal below shows a record of the sales made during the month of March by W. J. Wheeler, a wholesale merchant.

*March 19***SALES JOURNAL**

DATE	L. F.	ACCOUNT DEBITED	ADDRESS	TERMS	SALE NO.	AMOUNT
3		<i>E. M. Miller</i>	<i>507 Lee St., City</i>	<i>30 days</i>	<i>107</i>	<i>12550</i>
8		<i>Williams & Wallace</i>	<i>Evanston</i>	<i>60 days</i>	<i>108</i>	<i>11450</i>
12		<i>B. T. Hartman & Co.</i>	<i>Memphis</i>	<i>30 days</i>	<i>109</i>	<i>13250</i>
14		<i>Simon Levi</i>	<i>152 Third St., Uniontown</i>	<i>30 days</i>	<i>110</i>	<i>14165</i>
18		<i>Frye Bros.</i>	<i>20 Main St., City</i>	<i>90 days</i>	<i>111</i>	<i>11275</i>
20		<i>The Long Construction Co.</i>	<i>Charleston</i>	<i>30 days</i>	<i>112</i>	<i>19250</i>
24		<i>E. M. Miller</i>		<i>60 days</i>	<i>113</i>	<i>12155</i>
27		<i>Williams & Wallace</i>		<i>30 days</i>	<i>114</i>	<i>5975</i>
29		<i>B. T. Hartman & Co.</i>			<i>115</i>	<i>16525</i>
31		<i>Sales Cr.</i>	<i>Total Sales</i>			<i>116595</i>

Instructions. Post, allowing five lines for each account, and prove the posting by a Trial Balance.

Exercise 52, Recording Purchases and Sales

During the month of February, W. A. Gardner, a retail hardware merchant, made the following purchases and sales of merchandise on credit:

1. Purchased from B. A. Ames, Toledo, 30 days, invoice of today, \$350.00.
- ✓ 4. Sold C. H. Steele, 106 Pine St., City, 10 days, Sale No. 81, \$114.25.
5. Purchased from H. M. Lowe, Nashville, 30 days, invoice of February 3, \$325.50.
- ✓ 6. Sold Gilman Hotel, City, 30 days, Sale No. 82, \$37.35.
- ✓ 14. Sold C. H. Steele, 10 days, Sale No. 83, \$50.40.
18. Purchased from J. P. Benson, Cleveland, 60 days, invoice of February 15, \$563.75.
- ✓ 20. Sold A. L. Bradley, 12 S. Main St., City, Sale No. 84, \$154.25.
- ✓ 25. Sold Gilman Hotel, 30 days, Sale No. 85, \$27.32.
- ✓ 28. Sold J. W. Macon, Memphis, 20 days, Sale No. 86, \$65.60.

Instructions. (1) Rule a purchases journal and a sales journal similar to the forms in Exercises 49 and 51, and record the above transactions.

(2) Post, allowing four lines for each account, and prove the posting by a Trial Balance.

CHAPTER XI

THE CASH BOOK

Transactions in which cash is received or paid may be recorded in the journal and the information posted from these entries. The same information may be obtained more efficiently through the use of the cash receipts journal and the cash payments journal. The discussion in this chapter relates to the method of recording cash receipts and payments in separate journals or in the cash book.

The Cash Receipts Journal. A special journal in which only cash receipts are recorded is referred to as a *cash receipts journal*. The title of this journal indicates that the total is to be posted to the debit side of the Cash account. Recording all the cash receipts in the same journal and recording no other transactions in it permits ascertaining the total amount of cash received before posting to the Cash account.

The information needed in connection with the recording of a cash receipt is (a) date of the entry, (b) the increase in the asset cash, (c) the decrease in some other assets, increase in income or the increase in liabilities, and (d) any necessary explanation of the transaction. The desired information is obtained from the check received (page 77), or receipt stub (page 77) when currency is received.

With the proper ruling in the cash receipts journal, it is possible to record all the desired information for each transaction on one horizontal line.

Recording Cash Receipts. The method of recording transactions in the cash receipts journal and the advantage of its use are further explained by illustration.

During the month of May, E. B. Tate, a retail furniture dealer, completed the following transactions in which cash was received:

1. E. B. Tate invested cash, \$3,500.00, in the retail furniture business.
18. Received \$562.75 for cash sales.
23. Received cash, \$100.00, from James B. Fall to apply on account.
27. Received check for \$100.00 from A. T. Miller to apply on account.

Each of the four transactions increases the asset cash. The first increases the proprietorship, the second increases the sales, and the third and fourth decrease the asset accounts receivable.

The method of recording these four transactions in the journal is shown in the illustration at the top of page 125.

A minimum of four horizontal lines is required to record each transaction in the journal. The Cash account is debited in each transaction.

The same effect is recorded in the cash receipts journal shown in the illustration below. Only five horizontal lines are required to record the four transactions thus effecting a saving of many horizontal lines in the book of original entry. This saving of space demonstrates the efficiency of the cash receipts journal as a means of recording transactions in which cash is received.

May 1, 19			
126	Cash.....	3500 —	
126	E. B. Tate, Capital.....		3500 —
	Invested cash in retail furniture business.		
	18		
126	Cash.....	562 75	
126	Sales.....		562 75
	Received for cash sales.		
	23		
126	Cash.....	100 —	
126	James B. Fall.....		100 —
	Received cash to apply on account.		
	27		
126	Cash.....	100 —	
126	A. T. Miller.....		100 —
	Received cash to apply on account.		

CASH RECEIPTS

DATE	L. F.	ACCOUNT CREDITED	EXPLANATION	AMOUNT
May 1	126	E. B. Tate, Capital	Investment	3500 —
18	126	Sales	Cash sales	562 75
23	126	James B. Fall	On account	100 —
27	126	A. T. Miller	On account	100 —
31	126	Cash Dr.	Total Receipts	4262 75

Illustration 21, Cash Receipts Journal

Posting from the Cash Receipts Journal. Each amount in the "Amount" column is posted to the credit side of the account written on the same line with it. The date of the transaction, and the page and title (C) of the book of original entry are entered in the appropriate columns in the ledger; see illustration bottom of page 126. Completion of the posting is indicated in the cash receipts journal by placing the ledger page in the folio column; see above illustration. The posting of the credits from the cash receipts journal is usually completed daily.

At the end of the month or whenever a Trial Balance is to be taken, the cash receipts journal is ruled and footed as in Illustration 21. The total of the

"Amount" column is posted to the debit side of the Cash account; the page of the Cash account is written in the folio column of the cash receipts journal.

CASH									
19									
May	1	125	3500	—					
	18	125	562	75					
	23	125	100	—					
	27	125	100	—					
		4262	75						

JAMES B. FALL									
				19					
				May	23	125	100	—	

A. T. MILLER									
				19					
				May	27	125	100	—	

E. B. TATE, CAPITAL									
				19					
				May	1	125	3500	—	

SALES									
				19					
				May	18	125	562	75	

The ledger at the left shows the results of posting the journal entries at the top of page 125. A Trial Balance from this ledger is shown in the illustration at the top of page 127.

The ledger below and at the right shows the results of posting the cash receipts journal, Illustration 21, on page 125. A Trial Balance prepared from this ledger is shown in the illustration at the top of page 127.

A comparison of the two ledgers shows that both contain the same account balances. The only difference is that the Cash account in the ledger resulting from posting the journal contains four amounts and the Cash account in the ledger resulting from posting the cash receipts journal contains only one amount. The debit balance of the Cash account is the same in both cases. The saving of three horizontal lines in the ledger as a result of the cash receipts journal demonstrates the efficiency of the cash receipts journal through a saving of time and space.

CASH									
19									
May	31	C	125	4262	75				

JAMES B. FALL									
				19					
				May	23	C	125	100	—

A. T. MILLER									
				19					
				May	27	C	125	100	—

E. B. TATE, CAPITAL									
				19					
				May	1	C	125	3500	—

SALES									
				19					
				May	18	C	125	562	75

A Trial Balance. The illustration below is a Trial Balance prepared from either ledger on page 126. The final results as shown in the account balances are the same whether the cash receipts are recorded in the cash receipts journal or in the one journal.

E. B. TATE

TRIAL BALANCE, May 31, 19

126	Cash.....	4262	75		
126	James B. Fall.....			100	—
126	A. T. Miller.....			100	—
126	E. B. Tate, Capital.....			3500	—
126	Sales.....			562	75
		4262	75	4262	75

Exercise 53, Cash Receipts Journal

(ORAL OR WRITTEN)

- Received \$78.65 for cash sales of merchandise. State the method of recording this transaction in (a) the journal; (b) the cash receipts journal.
- Received \$25.00 from C. H. Jones, a charge customer, to apply on account. State the method of recording this transaction in (a) the journal; (b) the cash receipts journal.
- Received \$12.50 for merchandise purchased for cash and returned to the one from whom it was purchased. State the method of recording this transaction in (a) the journal; (b) the cash receipts journal.
- May 31. The total cash receipts for the month is \$3,218.65. How is this posted?
- From what stub is the entry on the receipts side of the cash book made?
- When is the cash receipts journal ruled?
- Received \$42.50 from A. L. Fall: \$32.50, in full of account; and \$10.00 for a cash sale. State the method of recording this transaction in the cash receipts journal and ledger.
- The total of the cash receipts journal, June 30, was \$4,235.50. The credit column of the Trial Balance, May 31, was \$2.00 more than the debit column. This resulted from an error in the addition of the cash receipts journal. What should have been recorded in the Cash account as the cash receipts for the month?

CASH PAYMENTS JOURNAL

The Cash Payments Journal. A special journal in which only cash payments are recorded is referred to as a *cash payments journal*. The title of this journal indicates that the total is to be posted to the credit side of the Cash account. Recording all cash payments in the same journal permits ascertaining the total amount of cash paid before posting to the Cash account. Since the total cash received and recorded in the cash receipts journal may be known before posting, it is customary to prove cash before posting either the total cash receipts or the total cash payments

The information needed in connection with the recording of a cash payment is (a) the date of the entry, (b) the decrease in liabilities, the increase in some other asset or decrease in proprietorship, (c) any necessary explanation of the transaction and (d) the decrease in the asset cash. This desired information is obtained from the receipt (page 75), or from the check stub (page 76).

With the proper ruling in the cash payments journal, it is possible to record the information for each transaction on one horizontal line.

Recording Cash Payments. The method of recording transactions in the cash payments journal and the advantage of its use are further explained by illustration.

During the month of May, E. B. Tate, a retail furniture dealer, completed the following transactions in which cash was paid:

- 2. Paid cash, \$83.33, for May rent.
- 3. Gave Dobbs Bros. a check for \$1,500.00 on account.
- 16. E. B. Tate withdrew cash, \$100.00, for personal use.
- 20. Gave Dobbs Bros. a check for \$365.42 to apply on account.
- 31. Paid cash, \$125.00, for salary of clerk for the month.

Each of the five transactions decreases the asset cash. The first and fifth increase the expense; the second and fourth decrease the liability accounts payable; and the third decreases the proprietorship.

The method of recording these five transactions in the journal is shown in the illustration at the right. A minimum of four lines is required to record each transaction in the journal. The Cash account is credited in each transaction.

The same effect is recorded in the cash payments journal in the illustration on page 129. Only six horizontal lines are required to record the five transactions thus effecting a saving of many horizontal lines in the book of original entry. This saving of space demonstrates the efficiency of the cash payments journal.

May 2, 19			
129	Expense.....	83 33	
129	Cash.....		83 33
	Paid cash for May rent.		
	3		
129	Dobbs Bros.....	1500 —	
129	Cash.....		1500 —
	Paid cash on account.		
	16		
129	E. B. Tate, Drawing	100 —	
129	Cash.....		100 —
	Withdrew cash for personal use.		
	20		
129	Dobbs Bros.....	365 42	
129	Cash.....		365 42
	Paid cash on account.		
	31		
129	Expense.....	125 —	
129	Cash.....		125 —
	Paid clerk's salary for the month.		

CASH PAYMENTS

DATE	L. F.	ACCOUNT DEBITED	EXPLANATION	AMOUNT
19 May 2	130	Expense	Rent for May	83 33
3	130	Dobbs Bros.	On account	15 00 —
16	130	E. B. Tate, Drawing	For personal use	1 00 —
20	130	Dobbs Bros.	On account	365 42
31	130	Expense	Clerk's salary for May	21 75 75
31	130	Cash Cr.	Total Payments	2173 75

Illustration 22, Cash Payments Journal

Posting from the Cash Payments Journal. Each amount in the “Amount” column is posted to the debit side of the account written on the same line with it. The date of the transaction and the page and title (C) of the book of original entry are entered in the appropriate columns of the ledger; see illustration on page 130. Completion of the posting is indicated in the cash payments journal by placing the ledger page in the folio column. Usually the posting of the debits from the cash payments journal is completed daily.

At the end of the month or whenever a Trial Balance is to be taken, the cash payments journal is ruled and footed as in the illustration above. The total of the “Amount” column is posted to the credit side of the Cash account in the ledger. Completion of the posting is indicated by placing the page of the Cash account in the folio column of the cash payments journal.

The ledger at the right is the result of posting the journal, page 128. The transactions are the same as those recorded in the cash payments journal, hence the account balances are the same as in the ledger illustrated on page 130. The Cash account in the ledger resulting from posting the journal contains five amounts and the Cash account in the ledger resulting from posting the cash payments journal contains only one amount. This demonstrates the efficiency of the cash payments journal through a saving of time and space.

CASH				
19 May	2	128	83 33	
	3	128	1500 —	
	16	128	100 —	
	20	128	365 42	
	31	128	125 —	
			2173 75	
DOBBS BROS.				
19 May	3	128	1500 —	
	20	128	365 42	
			1865 42	
E. B. TATE, DRAWING				
19 May	16	128	100 —	
EXPENSE				
19 May	2	128	83 33	
	31	128	125 —	
			208 33	

5. From what stub is the entry on the payments side of the cash book made?
6. When is the cash payments journal ruled?
7. Paid \$51.20 to Johnson Supply Co.: \$39.80, in full of account and \$11.40 for a cash purchase. State the method of recording this transaction in the cash payments journal and ledger.
8. The total of the cash payments journal, June 30, was recorded as \$2,240.75. The credit column of the Trial Balance, June 30, was \$5.00 more than the debit column. This resulted from an error in addition in the cash payments journal. What amount should have been recorded in the Cash account as the cash payments for the month?

THE CASH BOOK

The cash receipts journal and cash payments journal are frequently combined into one book for the convenience of the bookkeeper. This form is called the *cash book*. The left page of the cash book is used to record cash receipts and the right page for cash payments. This arrangement makes it convenient for the bookkeeper to secure the cash balance (the difference between the receipts and expenditures) each day or at frequent intervals, and thus prove the accuracy of his work. The cash book is commonly used only when one bookkeeper can record all of the cash receipts and payments.

When the cash receipts and cash payments journals are combined into the cash book, it is customary to provide an extra column on each side. The extra column on the receipts side is for the balance at the beginning of the month and the total cash receipts at the end of the month, and on the payments side for the total payments during the month.

The cash receipts and cash payments journals, Illustrations 21 and 22, are shown in cash book form in Illustration 23, pages 132 and 133.

Posting from the Cash Book. The posting from the cash book is the same as posting from the cash receipts journal and cash payments journal. Each amount on the receipts side is posted to the credit of the account written on the same line with it. The total receipts are posted to the debit side of the Cash account. Each amount on the payments side is posted to the debit side of the account written on the same line with it. The total payments are posted to the credit of the Cash account.

Cash Proof. Since the beginning balance and the cash receipts are recorded on the receipts side of the cash book and the cash payments on the payments side, the difference between the totals of each side should be the cash on hand. The cash is usually proved daily and always before posting.

The proof is made in the following manner:

(1) Add the receipts side of the cash book and enter the total in small pencil figures as in Illustration 23, page 132.

(2) Foot the payments side of the cash book and enter the total in small pencil figures as in Illustration 23, page 133.

CASH					RECEIPTS	
DATE	L. F.	ACCOUNT CREDITED	EXPLANATION	AMOUNT	TOTAL	
May 1	126	Estate Capital	Investment	3500 -		
18	126	Sales	Cash Sales	562 75		
23	126	James B. Tall	On account	100 -		
27	126	A. T. Miller	On account	100 -		
31	126	Cash Dr.	Total Receipts	4262 75		4262 75
June		Balance on hand				2089 -

Illustration 23, Receipts Side of Cash Book

(3) Add the balance on hand at the beginning of the month and the total of the receipts and from this sum subtract the total of the payments.

(4) The difference between the total cash receipts, which includes the cash on hand at the beginning of the month, and the total cash payments should be the same as the cash on hand or the cash on hand plus the balance in the bank. This is known as the *cash proof*.

Cash Over and Short. When the cash does not prove, it is necessary to verify all calculations to detect the error. When the error can not be detected, it may be recorded in an account with the title "Cash Over and Short". The method of handling cash should be such that proof may be effected, making an account for errors unnecessary.

Ruling the Cash Book. The cash book is ruled with single and double lines at the end of each month as in the illustration above and on the opposite page. The single lines are drawn on the same line on each side and the double lines one line below the single lines. The single lines are drawn across the dollars and cents columns only and the double lines across the same columns and the folio and date columns as in the illustration.

When the cash book is ruled, the balance is entered on the payments side to make the two sides equal and carried down below the ruled lines, or to the top of a new page, under date of the next business day as in the illustration. It is customary when ruling the cash book to begin the transactions for the next month at the top of the page so that receipts and payments will be opposite each other.

Exercise 55, Cash Book

(ORAL OR WRITTEN)

1. "May 6. Received \$21.65 for cash sales to date." State the method of recording this transaction.

CASH

DATE	L. P.	ACCOUNT DEBITED	EXPLANATION	PAYMENTS	
				AMOUNT	TOTAL
May 2	130	Expense	Rent for May	83 33	
3	130	Dobbs Bros.	On account	1 500 -	
16	130	Ed State	Drawing for personal use	1 00 -	
20	130	Dobbs Bros.	On account	3 65 42	
31	130	Expense	Clerk's salary for May	1 25 -	
31	130	Cash Cr.	Total Payments	2 173 75	2 173 75
1		Balance			2 089 -
					4 262 75

Illustration 23, Payments Side of Cash Book

2. "April 1. Paid April rent, \$83.33." State the method of recording this transaction.
3. "March 11. Received from W. H. Miller \$36.50 in full of account." State the method of recording this transaction.
4. "June 4. Gave Moore Bros. a check for \$125.60 in full of account." State the method of recording this transaction.
5. Cash is proved May 15. The total of the receipts side of the cash book is \$2,150.00 and the total of the payments side, \$1,360.00. The balance in the bank is \$420.00. If the cash records agree with the cash, how much money is on hand in the safe or cash register?

2,150.00
1,360.00
790.00
6. Cash was proved July 7. The amount of cash on hand was \$165.00 and in the bank \$35.00. The total of the receipts side of the cash book was \$1,240.00. If the cash proved, how much was the total of the payments side?

79.00
420.00
499.00
7. Cash was proved December 9. The cash on hand was \$122.50. The total of the cash receipts journal was \$2,480.00 and the cash payments journal, \$1,620.00. If cash proved, what was the bank balance?
8. If you were keeping books for a local business firm and at the end of the day, November 16, the difference between the cash receipts journal and the cash payments journal was \$2.00 less than the cash on hand, what would you do about it?
9. November 25. A charge customer called and stated that he had paid you \$2.00 on account but he had not received credit for it, which accounts for the error of November 16. What entry would be required to adjust the account because of this error?

Exercise 56, Posting from the Special Journals

(1) The cash book on pages 132 and 133 contains a record of the cash transactions completed by E. B. Tate during the month of May. It is desired to show this same information in account form. Post from these illustrations, allowing five lines for each account, and take a Trial Balance.

(2) The purchases journal on page 116 and the sales journal on page 120 contain a record of the purchases and sales made by E. B. Tate during the same month. It is desired to record these in the same ledger as the one in which the cash transactions are recorded. Post to the same accounts resulting from completing the above instructions and take a Trial Balance.

(3) Compare the accounts in this ledger with the accounts in the ledger on pages 81 and 82. Ascertain the reason for the discrepancy.

Exercise 57, Cash Book

January 1, H. H. Goodman, a retail grocer had on hand the following assets: cash, \$618.50; merchandise inventory, \$1,151.40; Central Hotel owed him, \$155.10; he owed Brown Bros. \$485.45. During January he completed the following cash transactions:

4. Paid January rent, \$60.00.
5. Paid \$192.00 for a cash purchase of merchandise.
6. Received \$30.00 for sundry cash sales.
Paid Brown Bros. \$75.50 in full of purchase of December 7.
9. Received from Central Hotel \$40.00 on account.
13. Received \$40.00 for sundry cash sales.
17. Paid Brown Bros. \$134.95 in full for purchase of December 18.
18. Received from Central Hotel \$35.00 on account.
20. Received \$50.00 for sundry cash sales.
24. Received from Central Hotel \$30.10 in full for sale of December 27.
27. Received \$42.50 for sundry cash sales.
29. Received \$50.00 from Central Hotel in full of account.
30. Paid Brown Bros. \$275.00 in full of account.
31. Paid bookkeeper's salary, \$125.00.

Instructions. (1) Record the assets, liabilities and proprietorship January 1 in the journal (page 48) and the cash transactions for the first thirteen days in the cash book. Prove cash, balance \$401.00, and post; allow six lines for Central Hotel and Sales accounts and five lines for each of the other account.

(2) Record the transactions, beginning with the 17th, in the same cash book. Prove cash, balance \$73.65, and post to the same ledger.

(3) Rule the cash book. Post the totals to the Cash account and prove the posting by a Trial Balance.

CHAPTER XII

THE GENERAL JOURNAL

When special journals are provided for purchases, sales, and cash, it is necessary to provide another journal in which to record those transactions of a general nature which cannot be recorded in these special journals. The following discussion relates to the method of recording some of those transactions which cannot be classified and recorded in a special journal.

The General Journal. Those transactions which cannot be recorded in special journals are recorded in the journal. To avoid confusion when referring to journals, it is customary to describe the journal as the *general journal*. The ruling is usually the same as that illustrated on page 29 unless the nature of the transactions requires additional columns in order to record the facts in the most efficient manner.

Posting from the General Journal. Each debit amount is posted to the debit side of the account written on the same line in the journal, and each credit amount, to the credit side of the account written on the same line in the journal. The date and page of the general journal are entered in the appropriate columns of the ledger; the letter "J" is written before the page number to indicate the book of original entry from which the amount was posted. When the posting of a debit or credit item has been completed, the ledger page number is written in the folio column of the general journal.

The entries in the general journal may be classified as (1) opening entries, (2) current entries, (3) correcting entries, (4) adjusting entries, and (5) closing entries.

Opening Entries. The purpose of the opening entry is to record on the ledger the assets and proprietorship or the assets, liabilities and proprietorship at the beginning of business or a fiscal period. The opening entry is made in the cash book when cash is the only asset invested and there are no liabilities. If there are assets other than cash invested in the business, the opening entry is made in the general journal and cash book.

The Balance Sheet is used as a basis for making the opening entry in the general journal. When an opening entry is made in the general journal, it is necessary to record the assets, liabilities, and proprietorship shown on the Balance Sheet. This is effected through recording as a debit to the appropriate account each asset, as a credit to the appropriate accounts each liability, and as a credit to the Capital account the proprietorship on the Balance Sheet. When the journal entry is posted, the assets, liabilities and proprietorship will be recorded on the ledger in accounts with appropriate titles.

At the beginning of the fiscal period, July 1, A. W. Ivy wishes to have a new ledger opened for recording the transactions during the next fiscal period. The Balance Sheet in the illustration at the left shows his assets; liabilities and proprietorship at the close of the fiscal period, June 30.

A. W. IVY			
BALANCE SHEET, June 30, 19			
Assets:		Liabilities:	
Cash	1879 60	Accts. Payable	
Accts. Rec.		Jones Bros.	421 50
A. B. Lowe	44 25	B. L. Meis	379 44
R. C. Deam	127 65	Total Liabilities	800 94
G. B. Lewis	55 90	Proprietorship:	
Mdse. Inv.	2751 55	A. W. Ivy, Cap.	4058 01
Total Assets	4858 95	Total Liab. & Cap.	4858 95

The illustration at the right shows the entry in the general journal which, when posted, will produce a new ledger with the proper account balances. Each asset account is debited for the amount of the asset stated on the Balance Sheet, each liability account is credited for the amount of the liability stated on the Balance Sheet, and the Capital account is credited for the present capital. When this entry is posted, the account balances in the ledger will show the assets, liabilities and proprietorship stated on the Balance Sheet.

July 1, 19			
Cash	1879 60		
A. B. Lowe	44 25		
R. C. Deam	127 65		
G. B. Lewis	55 90		
Merchandise Inventory	2751 55		
Jones Bros.		421 50	
B. L. Meis		379 44	
A. W. Ivy, Capital		4058 01	
To record the Balance Sheet of June 30.			

The entry to record the cash in the cash book is:

CASH		Receipts
19 July	1 <input checked="" type="checkbox"/> Balance	In City Bank 1879 60

The check mark in the folio column in the illustration above shows that the amount is not to be posted to the credit of any account; the amount is entered in the second money column of the cash book so it will not be posted as a debit to Cash at the end of the month since only the entries in the first column are posted. This entry, therefore, has no effect on the ledger, but is simply for the purpose of making the cash book agree with the ledger account.

Current Entries. There are various current transactions which by their nature can not be recorded in the special journals. For example, (a) the return of merchandise by a charge customer, (b) the return of merchandise to a creditor, (c) the receipt of a note from a charge customer, and (d) the issue of a note to a creditor. These transactions show the need for the general journal

as a means of recording current transactions which can not be recorded in special journals.

July 1. Received from C. A. Dodson, a charge customer, a 30-day note for \$118.10 in full of account.

The entry in the illustration at the right shows the method of recording this transaction in the general journal.

July 1, 19

Notes Receivable.....	118 10	
C. A. Dodson.....		118 10
Received 30-day note in full of account.		

Correcting Entries. When an error is the result of incorrect posting, the correction is made by drawing a line through the amounts posted incorrectly and by completing the posting correctly. When the wrong account title is stated in the book of original entry and the error is not discovered until after the entry is posted the correction will require an entry in the general journal. If the error is discovered before posting, lines may be drawn through the incorrect entry, and the correct entry with complete explanation, made below. Erasures or changes in a book of original entry are not considered desirable since such changes may indicate that someone is altering the books for the purpose of defrauding the owner.

July 31. Received from C. A. Dodson check for \$118.10 for note due today.

Through error the bookkeeper recorded this transaction in the cash book as follows:

CASH				Receipts
19				
July	31	C. A. Dodson	In full of account	118.10

When this entry is posted, the account with C. A. Dodson will be credited for \$118.10 and the face of the note, \$118.10, will remain in the Notes

August 2, 19

C. A. Dodson.....	118 10	
Notes Receivable.....		118 10
To correct error in cash book entry July 31		

account with C. A. Dodson will offset the credit in his account because of the error in the cash book entry. The credit to the Notes Receivable account will cancel the debit to this account which should have been canceled through the entry of July 31.

Receivable account. The entry in the general journal required to correct this error is shown in the illustration at the left. When this journal entry is posted, the debit to the

Adjusting Entries. The entries required at the close of the fiscal period to record the cost of sales, expenses because of supplies or services consumed, and income which may not have been recorded are referred to as *adjusting entries*. Since adjusting entries are made at the close of the fiscal period and at the time the ledger is closed, they may be included with the closing entries. Adjusting entries are illustrated in the first entry on page 104, and in the entries on pages 142, 145 and 149.

Closing Entries. The entries required at the close of the fiscal period to summarize the income and expenses in the Profit and Loss Summary account and to close the summary account are referred to as *closing entries*. Closing entries are usually made at the same time as adjusting entries, hence the two classes of entries need not be separated.

The distinction between adjusting and closing entries is that the former are those required to record the amounts in the Adjustments columns of the Working Sheet and the latter, those required to record the amounts in the Profit and Loss Statement columns of the Working Sheet. The second, third, fourth and fifth entries in Illustration 16, page 104, show closing entries.

Exercise 58, Special Journals

(ORAL OR WRITTEN)

- May 1. Issued check No. 37 in payment for rent. (a) In what book of original entry will this transaction be recorded? (b) What will be the title of the account debited if only rent is to be recorded in it? (c) How will the information be stated in this account?
- What is the position of (a) the cash receipts journal in the cash book? (b) cash payments journal?
- Total cash receipts, \$3,500.00; cash payments, \$2,160.00; cash in the bank, \$780.00. If cash proved, how much cash is on hand?
- To what accounts in the ledger are (a) the total purchases for the month posted? (b) the total sales? (c) the total cash receipts? (d) the total cash payments? (e) When are these totals posted?
- If the cash balance at the beginning of the month is \$1,274.54, and through error the amount is entered in the first column and posted to the Cash account with the total receipts at the end of the month, what effect will the error have on the Trial Balance? Why?
- In what books of original entry are the transactions represented by the following business papers recorded: (a) rent receipt? (b) stub of a receipt? (c) stub of a check? (d) check received? (e) receipt received? (f) sales ticket? (g) purchases invoice? (h) note? (i) note stub?
- June 1. C. H. Joy began business with the following assets: cash, \$2,500.00; merchandise inventory, \$1,500.00; equipment, \$500.00. State the book of original entry and entry to record this investment.

✓ **Exercise 59, Opening Entry**

The Balance Sheet below shows the assets, liabilities and proprietorship of A. L. Robb at the beginning of business on the date stated:

A. L. ROBB
BALANCE SHEET, July 1, 19

Assets:		Liabilities:	
Cash.....	1250 78	Notes Payable.....	1000
Notes Receivable.....	418 50	Accounts Payable:	
Accounts Receivable:		A. L. Ogden.....	329 50
L. J. Ault.....	116 50	C. J. Mays.....	79 25
G. H. Jerome.....	329 80	Total Liabilities.....	1408 75
B. D. Bunn.....	44 50	Proprietorship:	
Merchandise Inventory.....	4216 35	A. L. Robb, Capital.....	4967 68
Total Assets.....	6376 43	Total Liabilities and Prop.....	6376 43

Instructions. (1) Make the opening entry in the general journal to record in the ledger the facts stated on the Balance Sheet.

(2) Make the entry in the cash book to record the cash balance.

Exercise 60, Entries in the General Journal

(1) September 1. Make the entry to record in a new ledger the facts shown in the Balance Sheet below; enter the cash balance in the cash book. Post the entries; allow four lines for each account. Take a Trial Balance.

W. L. WATTS
BALANCE SHEET, August 31, 19

Assets:		Liabilities:	
Cash.....	762 55	Accounts Payable:	
Accounts Receivable:		A. L. Mann & Co.....	755 42
J. B. Mason.....	329 50	Joseph C. Mance.....	329 50
J. B. Macon.....	256 55	Total Liabilities.....	1084 92
A. L. David.....	79 55	Proprietorship:	
Merchandise Inventory...	2947 60	W. L. Watts, Cap.....	3290 83
Total Assets.....	4375 75	Total Liabilities and Proprietorship....	4375 75

(2) September 7. Allowed J. B. Mason ^{debit} credit for \$33.50 for merchandise purchased from him. Record this transaction in the general journal. *Sales*

(3) September 15. Gave A. L. Mann & Co. cash, \$255.42, and a note due in 30 days for \$500.00 in settlement of his account. Record these transactions in the cash book and general journal.

(4) September 23. J. B. ⁸²³⁰Mason reported that the amount of his account as shown by a monthly statement is \$64.50 more than the sales tickets received. Upon investigation it was discovered that this error was due to the fact that a sale for this amount made to J. B. Macon had been debited to the account with J. B. Mason instead of J. B. Macon. Make the correcting entry.

When an error in posting is detected in a subsequent fiscal period, the correction should be made through an entry in the general journal.

*mrs Harry Palm last husband on Chicago
Trip Nov. 8, 1913*

*Begin Here
Jan. 2 -
Happy New Year*

CHAPTER XIII

SUPPLIES, INSURANCE AND EQUIPMENT

A merchant must have wrapping paper, twine, and containers for use in the sale of merchandise, and equipment in the store room to display his merchandise. Equipment is also needed in the office to facilitate the clerical work to be done there. A prudent business man will insure his property. The discussion in this chapter relates to the method of recording transactions in which supplies, insurance, and equipment are purchased and the method of recording the expense at the close of the fiscal period because of use of the supplies and equipment and expiration of insurance.

Supplies. Material needed in connection with the sales of merchandise and the operation of the office, which will be consumed within a short period of time, is referred to as *supplies*. Paper, twine, paper bags, and various types of containers will be needed in taking care of the sales of merchandise. Stationery, pencils, tablets, ink, and material of like character will be needed for the efficient operation of the office. The material mentioned may be described as *supplies* or if it is desired to make the title more descriptive, as *office supplies*, *store supplies*, *shipping supplies*, *advertising material*, etc.

Purchase of Supplies for Cash. When cash is paid for supplies purchased, the transaction results in a decrease in the asset cash and an increase in the asset supplies. Since the supplies are not to be sold, the increase in the asset is not recorded in the Purchases account which shows merchandise purchased for resale, but in a separate account with Supplies. To record a cash purchase of supplies, it is necessary to debit the Supplies account and credit the Cash account.

May 3. A. W. Kirk, a retail druggist, paid \$20.50 in cash for wrapping paper and cord.

The entry to record this transaction on the payments side of the cash book is:

				CASH		Payments
19						
May	3	141	Supplies	Purchased paper and cord		20 50

When this transaction is posted, the Supplies account will be debited for \$20.50, and the \$20.50 will be included in the total credited to the Cash account.

Purchase of Supplies on Credit. When supplies are purchased on credit the transaction results in an increase in the asset supplies and an increase in the liability accounts payable. A transaction of this nature is recorded in the general journal because if recorded in the purchases journal, it will result in a debit to the Purchases account whereas it should be recorded as a debit to the Supplies account.

May 15. A. W. Kirk purchased 2 gross bottles from Ray & Ray, terms 30 days, \$38.75.

The general journal entry to record this transaction is shown in the illustration at the right. The debit to the Supplies account records the increase in the asset supplies and the credit to Ray & Ray records the increase in the liability accounts payable.

Consumption of Supplies. The twine, wrapping paper, letterheads, envelopes, and other supplies purchased for use are consumed in the daily operations of the business. The use of each item of supplies could be regarded as a transaction and the increase in expense and decrease in the asset supplies recorded at the time the supplies are used. This plan usually would not be practical because of the clerical work necessary to record the use of each item. For this reason, it is customary at the close of the fiscal period to record in one amount the expense because of the supplies consumed during the period.

Entry to Adjust the Supplies Account. The entry at the close of the fiscal period to record the cost of all the supplies used during the period as an expense is referred to as an entry *to adjust* the Supplies account. This adjusting entry requires a debit to an expense account with an appropriate title (usually Supplies Used) and a credit to the Supplies account.

The amount debited and credited is the difference between the total supplies purchased and the inventory of supplies. The balance of the Supplies Account at the close of the fiscal period shows the total purchases of supplies during the period. An inventory of supplies on hand at the close of the fiscal period ascertained in the same manner as merchandise inventory shows the asset value of the supplies. The difference between the supplies purchased and the supplies on hand is the expense because of supplies used.

The account in the illustration at the right is the result of posting the entries on pages 140 and 141. The balance of this account is \$59.25, the net cost of supplies purchased. At the close of the fiscal period, May 31, an inventory of supplies shows the value to be \$26.75.

The illustration on page 142 shows the journal entry necessary to adjust the Supplies account so that its balance will show the asset value of the supplies on hand May 31, and the ledger accounts resulting from posting. It will be observed that the difference between the net cost of supplies, \$59.25, and

May 15, 19

141	Supplies.....	38	75	•
157	Ray & Ray.....			38 75
	Purchased 2 gross bot-			
	tles on 30 days' time.			

SUPPLIES				
19				
May	3	C 140	20 50	
	15	J 141	38 75	
			59 25	

the value of the supplies on hand, \$26.75, is recorded as a debit to the Supplies

May 31, 19									
142	Supplies Used.....					32	50		
142	Supplies.....							32	50
	To transfer the value of the supplies used.								

SUPPLIES															
19								19							
May	3		C	140	20	50		May	31		J	142	32	50	
	15		J	141	38	75									
					59	25							59	25	
June	1	Inv.	✓	26	75										

SUPPLIES USED									
19	May	31		J	142	32	50		

Used account and as a credit to the Supplies account. When this entry is posted, the balance of the Supplies account, \$26.75, is the asset value of the supplies on hand. The balance of the Supplies Used account, \$32.50, is the expense resulting from the consumption of supplies. The Supplies account is ruled and the balance carried down under date of June 1 to show the asset value at the beginning of the new period. Since this

entry adjusts two accounts so that the balance of each will show the correct facts, it is an *adjusting entry*.

SUMMARY OF SUPPLIES ACCOUNTS

The Supplies Account is a record of the increases and decreases in the asset supplies.

This account is *debited* for increases through purchases and *credited* with decreases through supplies consumed.

The *debit* balance at the beginning of each fiscal period is an asset.

The Supplies Used Account is a record of the expense because of supplies consumed in the operations of the business.

This account is *debited* at the close of each fiscal period for the cost of the supplies used during the period. The amount of this debit is the difference between the total supplies purchased and the supplies inventory.

The *debit* balance of the Supplies Used account is an expense and is closed into the Profit and Loss Summary account.

Exercise 61, Purchase and Use of Supplies
(ORAL OR WRITTEN)

1. The debit balance of the Supplies account at the close of the fiscal period is \$162.50. The inventory of supplies is \$32.50. State the entry or entries necessary to record the expense because of supplies used.

2. The check removed from the stub in the illustration at the right was signed by O. A. Winger, a retail merchant. The purpose of the check is explained on the stub. (a) In what book of original entry will the bookkeeper for Mr. Winger record this transaction? (b) What account is debited? (c) Credited? (d) Why? (e) What effect does this transaction have on the assets? (f) When will the asset supplies become an expense?

No. 729

Date January 27 19

Favor of Jones Paper Co.

For Wrapping paper

Accounts

Amount of Check \$ 9.55

3. The purchases invoice below was rendered to O. A. Winger. (a) In

WOODS PAPER & TWINE CO.

Private Branch Exchange
Main 775

Manufacturers of
Paper
Rope and Twine
Also Direct Mill Agents

1521 Broadway

SOLD TO O. A. Winger,
1046 Main St.,
City

Date May 14, 19
Terms Net 30 days
Shipped Via Truck

5 pkgs. 24 x 36 Brown Service Kraft 480 lbs. .06½ 30.00
5 reels 3 ply extra fine Java Twine 265 lbs. .19 50.35
10 rolls 1½" Gummed Tape .28 2.80
63.15

what book of original entry will it be recorded? (b) Why? (c) What account is debited? (d) Credited? (e) What effect does the transaction have on the assets?

4. The balance of the Supplies account at the close of the fiscal period was \$425.50 and the supplies inventory, \$125.25. (a) State the entry necessary to record the expense because of supplies used during the period. (b) State the entry necessary to transfer the expense account to the Profit and Loss Summary account. (c) What is the balance of the Supplies account at the beginning of the next fiscal period? (d) Is it an asset or a liability?

5. The account at the right contains a record of the supplies purchased by O. A. Winger during the month of May. (a) If none of the supplies have been used, what does the balance represent? (b) If all the supplies have been used, what does the balance represent? (c) If the value of the supplies on hand is \$34.50, what does the balance represent? (d) What entry, if any, would be required to adjust the account under each condition mentioned in questions (a), (b) and (c).

SUPPLIES

19					19				
May	3			22 50	May	17			4—
	7			36 75					
	14			83 15					
	28			27 50					
				169 90					

6. If the business is operated on a calendar year basis, (a) on what date will the general journal entry illustrated at the

Supplies Used.....	105	50	
Supplies.....			105 50

left be recorded? (b)

What will be the explanation? (c) If the value of the supplies inventory is \$29.80, what is the total purchases of supplies for the year?

INSURANCE

Insurance. The protection against loss on assets from fire or other causes is referred to as *insurance*. This protection is provided by insurance companies. The amount paid an insurance company for insurance is referred to as the *premium*. The payment of this premium provides the desired insurance for the contract period, usually twelve months. The contract executed by an insurance company in which it agrees to provide protection against loss is known as an *insurance policy*.

Prepaid Insurance. The premium is paid to the insurance company at the time the policy is issued. When cash is paid for insurance, the transaction results in a decrease in the asset cash and an increase in an asset known as *prepaid insurance*. This prepaid insurance is an asset at the time the premium is paid because it is protection for the ensuing twelve months. The asset is of the same nature as supplies, that is, it will eventually be consumed, but it is an asset at the time of purchase.

May 2. A. W. Kirk, the retail druggist referred to in connection with previous transactions, paid \$60.00 in cash for the premium on a \$5,000.00 one-year policy issued May 1.

The entry to record this transaction in the cash book is:

CASH				Payments
19				
May	2	145	Prepaid Insurance Premium on \$5000.00 Insurance	60 —

When this transaction is posted, the Prepaid Insurance account will be debited for \$60.00; the credit to the Cash account will be included with the total posted at the end of the month.

The purpose in buying the insurance is to afford protection for a definite time, usually one year, hence the asset value of the prepaid insurance will decrease day by day. The amount of this daily decrease could be recorded at the close of the day. It is not, however, customary to do this because of the clerical work required. The usual plan is to record in one amount at the close of the fiscal period the expense because of the expired insurance.

The amount of the expense because of expired insurance is determined at the close of each fiscal period from the policy. If A. W. Kirk operates on a

monthly fiscal period, one-twelfth of the premium paid for the policy of May 2 will have expired at the close of the monthly fiscal period May 31. The asset value of the prepaid insurance at the close of May is \$55.00, hence the expense because of expired insurance is \$5.00, the difference between the full premium, \$60.00, and the present asset value of the premium, \$55.00.

The journal entry in the illustration at the right records the expired insurance. The debit to the Expired Insurance account records the increase in the expense and the credit to the Prepaid Insurance account records the decrease in the asset prepaid insurance. This is an adjusting entry.

		31		
145	Expired Insurance.....	5	—	
145	Prepaid Insurance.....			5 —
	To record the expired insurance.			

When the cash book entry on page 144 and the journal entry above have

PREPAID INSURANCE					
19			19		
May	2	C 144 60 —	May	31	J 145 5 —
		60 —			60 —
June	1	✓ 55 —			

EXPIRED INSURANCE					
19					
May	31	J 145 5 —			

been posted, the Prepaid Insurance and Expired Insurance accounts will appear as in the illustration at the left. The Prepaid Insurance account is ruled and the balance carried down under date of June 1; the debit balance, \$55.00, shows the asset value of the prepaid insurance. The debit balance of the Expired Insurance account, \$5.00, shows the expense because of expired insurance.

SUMMARY OF INSURANCE ACCOUNTS

The Prepaid Insurance Account is a record of the increases and decreases in the asset prepaid insurance.

This account is *debited* for the increases because of premiums paid and *credited* for decreases because of insurance expired.

The *debit* balance at the beginning of each fiscal period is an asset.

The Expired Insurance Account is a record of the expense because of expired insurance.

This account is *debited* at the close of the fiscal period for the amount of the insurance expired during the period. The amount of this debit is the difference between the total premiums paid and the value of the unexpired insurance.

The *debit* balance of the Expired Insurance account is an expense and is closed into the Profit and Loss Summary account.

Exercise 62, Purchase and Expiration of Insurance

(ORAL OR WRITTEN)

1. The check removed from the stub in the illustration at the right was signed by C. J. Otis, a retail merchant. The purpose of the check is explained on the stub.

(a) In what book of original entry will the bookkeeper record this transaction? (b) What account is debited? (c) Credited? (d) Why? (e) What effect does the transaction have on the assets?

No. 883
Date July 1 19
Favor of Western Insurance Co.
For Premium on insurance policy
Accounts
Amount of Check \$ 100.00

2. The account below contains a record of the insurance paid by C. J. Otis during the fiscal year beginning July 1. (a) What is the asset value of

PREPAID INSURANCE

1928			
July	1 1 year	88	65
Aug.	1 1 year	62	50
Dec.	1 1 year	55	—
1929			
May	1 1 year	76	25

the insurance (stated in account) at the close of the fiscal year, June 30?

(b) What entry will be required to adjust the Prepaid Insurance account?

(c) In what book of origi-

nal entry will this be recorded? (d) Which of the two accounts affected will be open after the ledger is closed?

3. At the close of the calendar year, the two accounts in the illustration at the right are in the ledger of Robert Cum-

	SUPPLIES

SUPPLIES

19				19			
Jan.	2	Inven.	68 50	Sept.	2		\$ 50
Mar.	15		72 40				
Aug.	29		104 35				

PREPAID INSURANCE

[illegible]

(a) Which of these accounts may be adjusted without additional information? (b) Which of these accounts may not need adjustment? (c) Why? (d) When will each policy recorded in the Pre

4. C. J. Owens, a retail merchant, had his merchandise insured for \$12,000.00. The insurance rate was \$19.75 per thousand (a) What was the amount of the check required to pay the premium? (b) In what book of original entry was the check recorded? (c) What account was debited?

5. The account at the left appears in the ledger of Robert Joyce. A. C. Potter, the charge customer, is an insurance agent. April 1, Robert Joyce purchased from A. C. Potter a \$5,000.00 insurance policy on merchandise at \$18.65 per thousand. A. C. Potter is to be credited with the amount of the premium. (a) In what book will this transaction be recorded? (b) What account is debited? (c) Credited? (d) What effect will this transaction have on the account with A. C. Potter?

A. C. POTTER					
19					
Mar.	6	S67	41	25	
	16	S83	15	80	
	28	S99	32	50	
			89	55	

EQUIPMENT

Equipment. Assets other than supplies may be needed for use in the operation of the business. Typewriters, desks, adding machines, and various other types of office appliances may be required in the office. Display cases, counters, tables, and scales may be required in the store. These assets differ from supplies in that they will not be consumed within a short time.

Containers may be consumed through use within a few days after they are purchased but a display case may be in use for several years. Office stationery such as letterheads and envelopes may be consumed through use within a few weeks or months after they are purchased, but a typewriter or desk should be serviceable for several years. The assets which will not be consumed in a short time are usually described as *equipment*, or if a more descriptive title is desired, *office equipment*, *storeroom equipment*, or *shipping room equipment*.

The Purchase of Equipment. When cash is paid for equipment purchased, the transaction results in a decrease in the asset cash and an increase in the asset equipment. Since the equipment is not purchased to be sold but to be used in the business, the increase in the asset is not recorded in the Purchases account but in a separate account with equipment. A cash purchase of equipment is recorded on the payments side of the cash book as a debit to the Equipment account.

May 1. A. W. Kirk, the retail druggist referred to in previous illustrations, paid \$150.00 cash for a display case.

The entry to record this transaction in the cash book is:

CASH				Payments	
19					
May	1	149	Equipment	Purchased display case	150 —

When this entry is posted, the Equipment account is debited for \$150.00. At the end of the month when the total cash payments is posted, the \$150.00 will be included with the sum recorded on the credit side of the Cash account.

When equipment is purchased on credit, the transaction results in an increase in the asset equipment and an increase in the liability accounts payable, or if a note is given, an increase in the liability notes payable. [A transaction of this nature is recorded in the general journal because if recorded in the purchases journal, it would result in a debit to the Purchases account]

May 2. A. W. Kirk purchased from Davis Bros. one soda fountain, terms, 30 days, \$1,200.00.

The entry in the general journal to record this transaction is shown in the illustration at the right. The account with

May 2, 19				
Equipment	1200	—		
Davis Bros.			1200	—
Bought 1 soda fountain on 30 days' time.				

credited to record the increase in the liability accounts payable.

Depreciation. [The decrease in value of the equipment through its use is referred to as *depreciation*.] This decrease in the asset results in a corresponding increase in the expenses. The exact amount of this expense can not be known until the equipment is sold, exchanged or discarded.

Since it is desired to record all the expense for each fiscal period so that the owner may know his profit for the period, it is customary to estimate the depreciation on equipment applicable to the period. The amount of this estimated depreciation is recorded at the close of the fiscal period as one of the expenses for the period. The depreciation for each day could be estimated and recorded but this would not be practical, hence the record of the expense is made at the close of the fiscal period in one amount.

Method of Recording Depreciation. At the close of each fiscal period, the amount of depreciation is estimated and recorded as an expense. Depreciation Expense account may be debited for the estimated expense, and Equipment account, credited. The balance in the Equipment account would then show its estimated value at the close of the period.

It is customary to have the Equipment account show the cost value at all times because the owner may have occasion to refer to the cost value when purchasing new equipment, securing insurance, or completing some similar transaction. To provide this information, the credit for depreciation is not to the Equipment account, but to an account with the title *Depreciation Reserve*. When it is desired to ascertain the present estimated value of the equipment, the total reserve recorded in the Depreciation Reserve account is subtracted from the total cost recorded in the Equipment account.

The word "depreciation" used in connection with the title of an account indicates that the amount recorded in the account is based on an estimate.

Thus, an account with the title Depreciation Expense indicates that this is the estimated expense incident to the decrease in the value of the equipment; an account with the title Depreciation Reserve indicates that the credit balance is a deduction from the cost of the equipment and that the amount is estimated.

May 31, the close of the monthly fiscal period, A. W. Kirk estimated the depreciation on the equipment to be \$11.25. This estimate is based on ten years use.

The cost value of the equipment, \$1,350.00, with an expected use of ten years and no scrap value results in an estimated depreciation of 10% each year or \$135.00. The depreciation for a month is one-twelfth of \$135.00 or \$11.25.

The entry in the general journal to record the expense and the decrease in the value of the equipment incident to the ownership of the equipment is shown in the illustration at the left. The decrease in proprietorship (expense) is recorded as a debit to the Depreciation Expense account; the decrease in the value of the property is recorded as a credit to the Depreciation Reserve account. This is an adjusting entry.

The results of posting the cash book entry on page 147 and the journal entries on pages 148 and 149 are shown in the illustration at the right. It will be observed that the debit balance of the Equipment account, \$1,350.00, is the cost of the equipment and the credit balance of the Depreciation Reserve account, \$11.25, is the estimated decrease in value because of depreciation. The difference between the two balances or \$1,338.75 is the present or book value of the equipment. The book value is an estimated value because the amount of the depreciation is estimated. The equipment

May 31, 19			
149	Depreciation Expense	11 25	
149	Depreciation Reserve		11 25
	To record the estimated depreciation.		

CASH			
19	May	31	C 147 150 —
EQUIPMENT			
19	May	1	C 147 150 —
		2	J 148 1200 —
			1350 —
DEPRECIATION RESERVE			
19	May	31	J 149 11 25
DAVIS BROS.			
19	May	2	J 148 1200 —
DEPRECIATION EXPENSE			
19	May	31	J 149 11 25

may be worth more or less than this amount; its real value can be ascertained only when it is sold.

SUMMARY OF EQUIPMENT ACCOUNTS

The Equipment Account is a record of the increases and decreases in the asset equipment.

This account is *debited* with the increases at cost price through purchases and *credited* with decreases at cost price through sale or exchange.

The *debit* balance shows the cost of the equipment owned, but does not show the real value of the asset after the first fiscal period; the asset value is the difference between the debit balance and the credit balance of the Depreciation Reserve account.

The Depreciation Reserve Account is a valuation account showing a record of the estimated decrease in the value of equipment because of depreciation.

This account is *credited* at the close of each fiscal period for the estimated depreciation.

The *credit* balance shows the amount to be deducted from the debit balance of the Equipment account to show book value of the equipment. Both the cost price and book value are shown on the Balance Sheet through deducting the balance of the Depreciation Reserve account from the balance of the Equipment account.

The Depreciation Expense Account is a record of the expense because of the estimated decrease in the value of the equipment.

This account is *debited* at the close of each fiscal period for the increase in expense because of estimated depreciation.

The *debit* balance of the Depreciation Expense account is an expense and is closed into the Profit and Loss Summary account. The Depreciation Expense account is in balance during the fiscal period.

Expenses. [The decrease in assets and proprietorship because of services necessary to operate the business is referred to as expense.] Descriptive titles may be used to designate various types of expenses such as Rent, Salaries, Advertising, etc.

Expenses paid during the fiscal period are recorded as a decrease in the asset cash and an increase in the expenses. The appropriate expense account is debited and the Cash account credited.

There are several different expenses which occur daily but are not recorded until the close of the fiscal period. These include

Supplies Used

Insurance Expired

Depreciation on Equipment

The expense because of supplies used and expired insurance is determined and recorded at the close of the fiscal period. Supplies used are re-

corded as a debit to the Supplies Used account and expired insurance as a debit to the Expired Insurance account.

The exact depreciation on equipment cannot be determined until the equipment is sold, but it is estimated at the close of each fiscal period. This estimated depreciation is recorded as a debit to the Depreciation Expense account and a credit to the Depreciation Reserve account.

Exercise 63, Purchase and Use of Equipment

(ORAL OR WRITTEN)

2. Equipments.

E. P. K.

1. "Gave the Harman Desk Company a check for \$90.00 in payment for an office desk." (a) How will this transaction be recorded? (b) What effect does it have on the assets?

- [illegible]

[illegible]

3. "October 1, Purchased from the Moore Safe Company one Hartford safe for \$200.00. Paid cash, \$100.00 and gave note for \$100.00 due in sixty days with interest." (a) In what books of original entry will this transaction be recorded? (b) How? (c) What effect does the transaction have on the equation, "Assets = Liabilities + Proprietorship?"

4. "January 2. C. O. Robb, a retail druggist, paid \$100.00 in cash for a typewriter." The agreement was that it could be used for three years and traded in for a new typewriter at a value of \$25.00. (a) How much will this typewriter depreciate each year? (b) What entry will be made at the close of each year to record the depreciation? (c) What will be the book value of the typewriter December 31 of the first year, second year, and third year?

5. "May 1. Miss Mabel Cohen, who operates the Candy Shop, paid cash, \$200.00, for equipment." If she operates on a monthly fiscal period basis and estimates that this equipment will be of service one hundred months, what entry will be required May 31 to record the depreciation on equipment?

6. July 1. W. T. Risinger, a retail merchant, paid \$1200.00 for a delivery truck which he estimates will be of service for fifty months, with an exchange value of \$200.00 at the end of that time. The truck was destroyed by fire thirty-two months after date of purchase. If the truck was fully insured and he collects book value from the insurance company, what amount of cash will he receive?

$$\begin{array}{r} 5 \overline{) 320} \\ \underline{160} \\ 160 \\ \underline{160} \\ 0 \end{array}$$

Exercise 64, Supplies, Insurance and Equipment

March 1, L. B. Cloud invested \$5,000.00 in cash in a retail clothing business. During the year ending February 28 next, he purchased supplies, insurance, and equipment as follows:

- Mar. 1. Gave the Office Equipment Company a check for \$1,250.00 in payment for equipment.
3. Bought supplies from O. R. Dick & Company on credit, \$39.62.
5. Gave the Acme Manufacturing Company a check for \$65.50 in payment for containers purchased for use in packing goods sold.
6. Returned to O. R. Dick & Company, a part of the supplies purchased on the 3d, \$3.75.
10. Gave M. Franklin a check for \$120.00 in payment for premium on insurance policy for one year, issued March 1.
- April 7. Purchased supplies from W. H. Lord on credit, \$155.50.
- June 15. Gave L. B. Andrews a check for \$72.65 in payment for supplies purchased on this date.
- July 31. Bought supplies from O. R. Dick & Company on credit, \$92.55.
- Sept. 1. Gave the Office Equipment Company a check for \$250.00 in payment for additional equipment bought on this date.
- Nov. 1. Gave M. Franklin a check for \$81.60 in payment for premium on insurance policy for one year, issued today.
- Dec. 5. Bought supplies from the Acme Manufacturing Co. on credit, \$120.00.
- Jan. 7. Bought supplies from Davis Bros. on credit, \$44.50.
- Feb. 1. Received \$6.50 in cash for sale of containers purchased for use in packing goods sold.
- Feb. 28. Inventory of supplies, \$67.45.

Depreciation on equipment, 10% per year.

Instructions. (1) Record the transactions in the required journals and post; allow twelve lines for the Supplies account and seven lines for each of the other accounts.

(2) Record under date of February 28 the expense because of supplies used, expired insurance and estimated depreciation for the fiscal year. Post and take a Trial Balance.

The information given under date of February 28 and in the Prepaid Insurance account will be used as a basis for the adjusting entries.

Exercise 65, Prepaid and Expired Insurance

Albert Snow, a retail merchant, paid cash for yearly insurance premiums as follows:

July 1.....	\$127.20	February 1.....	\$ 36.60
August 1.....	49.80	April 1.....	108.60
November 1....	66.00	June 1.....	24.00

Instructions. Show the Prepaid Insurance and Expired Insurance accounts as they would appear on the ledger at the close of the fiscal periods September 30, December 31, March 31, and June 30.

Eleanor

start Jan. 16

CHAPTER XIV

A MODEL SET

The books of original entry and ledger both containing a record of all the transactions completed by a business are usually referred to as a *set of books*. The illustrations in this chapter show the set of books belonging to H. W. Good, a retail merchant, during the monthly fiscal period of October. These illustrations provide a review of the preceding chapters and include a practical presentation of the bookkeeping process applied to the keeping of a set of books.

Bookkeeping. The work of the bookkeeper, that is, the one who *keeps books*, may be briefly described as follows:

- (1) Recording the opening entry at the beginning of the fiscal period when a new business is organized or it is desired to open a new ledger.
- (2) Recording all subsequent business transactions to provide the daily and periodic information needed by the owner of the business.
- (3) Preparation of the monthly Trial Balance to prove the equality of debits and credits in the ledger.
- (4) Preparation of the Working Sheet, Balance Sheet and the Profit and Loss Statement at the close of each fiscal period.
- (5) Recording on the ledger, through the general journal, the adjusting and closing entries at the close of each fiscal period and preparing a Post-closing Trial Balance.

The daily information needed includes (a) the cash balance, (b) cash proof, (c) the amount owed by each customer, (d) the amount owed to each creditor, (e) the purchases, (f) the sales, and (g) the expenses.

The periodic information needed includes all the facts necessary to ascertain the present proprietorship and net profit at the close of the fiscal period.

When the transactions are recorded so as to provide daily information, proprietorship and net profit can be ascertained from the account balances in the ledger, after the accounts affected by the inventories and depreciation have been adjusted.

OPENING ENTRIES

Monday morning, October 1, the assets, liabilities, and proprietorship of H. W. Good, a retail merchant, stated in equation form are:

$$\text{ASSETS } \$1848.33 = \text{LIABILITIES } \$326.68 + \text{PROPRIETORSHIP } \$1521.65$$

The Balance Sheet at the top of page 154 shows the nature and value of each asset, the nature and amount of each liability, and the proprietorship.

H. W. Good
BALANCE SHEET, September 30, 19..

Assets:				Liabilities:			
Cash:				Notes Payable.....		160	—
In the Bank.....	991.68			Accounts Payable:			
On Hand.....	25.00	1016	68	J. A. Whitney & Co....	108.66		
				Proctor & Gamble....	58.02	166	68
Notes Receivable.....		100		Total Liabilities.....		326	68
Accounts Receivable:				Proprietorship:			
A. R. Jennings.....	18.27			H. W. Good, Capital.....		1521	65
Central Hotel.....	69.18	87	45				
Merchandise Inventory.....		521	65				
Supplies.....		62	55				
Prepaid Insurance.....		60					
Total Assets.....		1848	33	Total Liabilities and Capital.....		1848	33

NARRATIVE OF TRANSACTIONS

During the month of October, H. W. Good completed the following transactions:

- (a) 12 purchases of merchandise on credit.
- (b) 17 sales of merchandise on credit and 3 sales for cash.
- (c) 1 cash investment, 12 cash collections from charge customers and 1 cash collection for a note.
- (d) 7 cash payments to creditors, 7 cash payments for expenses, 2 cash payments for supplies, 2 cash withdrawals by H. W. Good and 1 cash payment for a note.
- (e) 1 purchase of equipment on credit, 1 note issued to a creditor, 1 note received from a charge customer, and 1 return of merchandise by a charge customer.

The opening entry and transactions outlined above are recorded in the journals, pages 155 to 159. The ledger, pages 161 to 166, contains the same information as that recorded in the journals. The entries were posted daily and the totals were posted at the end of the month.

The General Journal contains (a) the opening entry (the numbers in parentheses refer to the pages of the accounts in the old ledger); (b) three current entries to record transactions which could not be recorded in a special journal; (c) an entry to record the expense because of supplies consumed, insurance expired and estimated depreciation; (d) an entry to transfer the inventory, October 1, to the Purchases account so that this account will contain a record of the total purchases; (e) an entry to record the cost of sales through transferring the asset value of the merchandise in stock, October 31, from the Purchases account to the Merchandise Inventory account; (f) three entries to summarize the income, cost and expenses into the Profit and Loss Summary account; and (g) an entry to close the Profit and Loss Summary account.

October 1, 19

PAGE 17

1	Cash (5)	101668	
2	Notes Receivable (9)	100 —	
7	A. K. Jennings, 115 Main St., City (10)	1827	
8	Central Hotel, 216 Fairview Ave., City (11)	6918	
27	Merchandise Inventory (14)	52165	
28	Supplies (18)	6255	
29	Prepaid Insurance (19)	60 —	
33	Notes Payable (25)		160 —
34	J. T. Whitney & Co., 212 Oliver St., City (27)		10866
35	Proctor & Gamble, Third and Broadway, City (28)		5802
45	H. W. Good, Capital (40)		152165
	To record the assets, liabilities and proprietorship shown on Balance Sheet of September 30		
	2		
30	Equipment	475 —	
37	Winters Supply Co., 335 Broadway, City		475 —
	Purchased equipment per invoice of this date, 10 days.		
	13		
37	Winters Supply Co.	275 —	
38	Notes Payable		275 —
	Gave 30-day note to apply on purchase of October 2.		
	27		
2	Notes Receivable	100 —	
51	Sales	110	
13	Park Hotel		10110
	Rec'd 30-day note, \$100, and returned goods, \$1.10, in full of account to date		
	31		
60	Supplies Used	4237	
61	Expired Insurance	10 —	
62	Depreciation Expense	950	
28	Supplies		4237
29	Prepaid Insurance		10 —
31	Depreciation Reserve		950
	To adjust the Supplies and Prepaid Insurance accounts and to record 2% monthly depreciation on equipment		

PAGE 18

October 31, 19

52	Purchases	521 65	
27	Merchandise Inventory		521 65
	To transfer Merchandise Inventory September 30 to Purchases account.		
	31		
27	Merchandise Inventory	1094 84	
52	Purchases		1094 84
	To record Merchandise Inventory, October 31.		
	31		
51	Sales	1524 66	
63	Profit and Loss Summary		1524 66
	To close the Sales account.		
	31		
63	Profit and Loss Summary	1073 90	
52	Purchases		1073 90
	To close the Purchases account		
	31		
63	Profit and Loss Summary	223 87	
57	Rent Expense		75 —
58	Salary Expense		75 —
59	Miscellaneous Expense		12 —
60	Supplies Used		42 37
61	Expired Insurance		10 —
62	Depreciation Expense		950
	To close the expense accounts		
	31		
63	Profit and Loss Summary	226 89	
45	N.W. Good, Drawing		100 —
46	N.W. Good, Capital		126 89
	To close the Profit and Loss Summary account.		

The **Purchases Journal** below contains a record of the purchases on credit made by H. W. Good during the month of October. The information for each entry is an invoice similar to the form illustrated on pages 173.

PURCHASES JOURNAL

PAGE 12

October, 19

DATE	L. F.	ACCOUNT CREDITED	ADDRESS	TERMS	INV. DATE	AMOUNT
2	38	J. W. Allen & Co.	32 Centers St., City	1/2 Cash 1/2 30 days	10/1	179.30
3	36	Franklin Sugar Co.	1818 Oak St., City	15 days	10/2	136.96
5	38	J. W. Allen & Co.		1/2 Cash 1/2 30 days	10/4	194.00
10	38	J. W. Allen & Co.		20 days	10/9	230.00
15	39	L. B. Dick & Co.	Springfield		10/13	817.8
15	38	J. W. Allen & Co.			10/13	48.00
17	40	Lake View Creamery	76 Bank St., City	20 days	10/14	30.00
22	40	Lake View Creamery		20 days	10/20	48.00
23	38	J. W. Allen & Co.		30 days	10/22	199.10
26	38	J. W. Allen & Co.		30 days	10/25	216.50
29	36	Franklin Sugar Co.		10 days	10/28	202.40
30	39	L. B. Dick & Co.		15 days	10/29	81.05
31	52	Purchases Dr.	Total Purchases			1647.09

Illustration 25, Purchases Journal, Page 12

The **Sales Journal** below contains a record of the charge sales made by H. W. Good during the month of October. The information for each entry is a copy of the sales invoice similar to the form illustrated on page 174.

SALES JOURNAL

PAGE 13

October, 19

DATE	L. F.	ACCOUNT DEBITED	ADDRESS	TERMS	SALE NO.	AMOUNT
5	7	A. R. Jennings		10 days	101	16.25
8	9	Park Hotel	165 Willis St., City	Weekly	102	59.35
11	7	A. R. Jennings		30 days	103	56.25
13	10	M. A. Johnson	9 Jay St., Kingston	10 days	104	54.40
16	9	Park Hotel			105	51.40
19	11	James C. Wilson	416 Broad St., City	10 days	106	44.30
20	9	Park Hotel			107	137.85
23	11	James C. Wilson		30 days	108	132.55
23	12	C. L. Lord	R. F. D. No. 11, City	10 days	109	26.05
24	9	Park Hotel			110	142.50
26	13	Park Hotel			111	82.05
26	10	M. A. Johnson			112	44.25
27	7	A. R. Jennings		10 days	113	38.50
		Carried Forward				885.70

Illustration 26, Sales Journal, Page 13

PAGE 14

SALES JOURNAL

October, 19

DATE	L. F.	ACCOUNT DEBITED	ADDRESS	TERMS	SALE NO.	AMOUNT
		Brought Forward				88570
27	13	Park Hotel			114	8025
29	11	James C. Wilson		10 days	115	3756
29	13	Park Hotel			116	9290
29	7	A. R. Jennings		30 days	117	4250
31	51	Sales Cr.	Total Sales			113891

Illustration 26, Sales Journal, Page 14

The Cash Book on this and the opposite page contains a record of the cash receipts and the cash payments during the month of October. The infor-

PAGE 20

CASH

RECEIPTS

DATE	L. F.	ACCOUNT CREDITOR	EXPLANATION	AMOUNT	TOTALS
Oct. 1	✓	Balance			101668
2	7	A. R. Jennings	In full of account	1827	
6	8	Central Hotel	On account	50 —	
6	51	Sales	Cash sales 776.64	230137	
9	7	A. R. Jennings	To apply on sale of Oct. 5	10 —	
12	9	Park Hotel	On account	3050	
18	7	A. R. Jennings	On account 605.60	26067	
18	10	M. A. Johnson	To apply on sale of Oct. 19	35 —	
20	51	Sales	Cash sales 367.66	14459	
22	45	H. W. Good, Capital	Additional investment	500 —	
22	9	Park Hotel	On account	2575	
25	11	James C. Wilson	To apply on sale of Oct. 19	2215	
25	2	Notes Receivable	In full for note due	100 —	
26	7	A. R. Jennings	In full for sale of Oct. 5	25	
27	13	Park Hotel	Balance due Oct. 22, 1925	3125	
31	12	G. L. Lord	In full for sale of Oct. 23	2605	
31	13	Park Hotel	On account	50 —	
31	51	Sales	Cash sales 1024.61	11025	
31	1	Cash Dr.	Total Receipts		137707

Nov. 1	✓	Balance	On hand	239375
				102461

Illustration 27, Receipts Side of the Cash Book, Page 20

mation for each entry on the receipts side of the cash book is a receipt stub or check similar in form to the illustrations on pages 77 and 181. The information for each entry on the payments side of the cash book is a receipt or check stub as illustrated on pages 75 and 177.

Cash Proof. Cash was proved, as described on page 131, on October 6, 13, 20, 27, and 31, and the balances written in small figures in Illustration 27. The pencil footings (represented by small figures in the illustration) are not erased when cash has been proved, thus facilitating the next cash proof. The bookkeeper knows that cash proved at the points indicated by small figures, hence it is not necessary to check back of these figures when the cash does not prove at a subsequent time.

Opening a New Ledger. When accounts are opened in a new ledger, it is customary to group and arrange them in the order in which their balances will be reported on the Balance Sheet and Profit and Loss Statement. The

CASH

PAGE 41

			PAYMENTS		
DATE	L. F.	ACCOUNT DEBITED	EXPLANATION	AMOUNT	TOTALS
Oct. 1	57	Rent Expense	October rent	75 —	
2	34	J. A. Whitney & Co.	In full of account	108 66	
2	28	Supplies	Wrapping paper	16 85	
3	38	J. W. Allen & Co.	1/2 of purchase, Oct. 2	89 65	
4	59	Miscellaneous Expense	Telephone service	3 25	
5	46	H. W. Good, Drawing	For personal use	50 —	
6	38	J. W. Allen & Co.	1/2 of purchase, Oct. 4	97 41	
12	59	Miscellaneous Expense	Cleaning windows	1 50	
13	37	Winters Supply Co.	In full of account	200 —	
13	28	Supplies	Postage stamps	65 91	
15	58	Salary Expense	Clerk's salary	37 50	
17	36	Franklin Sugar Co.	In full of account	136 96	
18	46	H. W. Good, Drawing	For personal use	50 —	
18	33	Notes Payable	Payment of 60-day note	160 —	
19	35	Proctor & Gamble	In full of account	58 92	
25	59	Miscellaneous Expense	Advertisement	9 25	
29	38	J. W. Allen & Co.	In full of purchase, Oct. 9	230 —	
31	59	Miscellaneous Expense	Light and water	47 5	
31	58	Salary Expense	Clerk's salary	37 50	
31	1	Cash Cr.	Total Payments		1369 14
31	v	Balance			1024 00
					2393 75

Illustration 27, Payments Side of the Cash Book, Page 21

1016.68
1093.21

2109.91

101

accounts in the ledger, pages 161-166, are arranged in the same order as the account balances reported on the Balance Sheet, page 168, and Profit and Loss Statement, page 169.

Ledger Pages. Usually a full page is allowed for each account. In the ledger illustrated it is necessary to group several accounts on each page in the text as indicated by the page number printed on each account.

Partial Payments. Letters are used in personal accounts to enable the bookkeeper to interpret the relation between debit and credit entries without referring to the book of original entry. Thus, an "a" opposite amounts on each side of an account indicates that these amounts are related to each other.

The same letter on each side of an account with a creditor indicates that the debit amount is applicable to the credit amount. The same letter on each side of an account with a customer indicates that the credit amount is applicable to the debit amount.

Errors. The errors corrected in the books of original entry and the accounts are explained in Chapter XVI.

Indexing a Ledger. When a ledger is a bound book or a loose-leaf book with numbered pages, it is advisable to index the accounts. The index below is applicable to the ledger on pages 161-166.

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Winters Supply Company	37

WORK AT THE CLOSE OF THE FISCAL PERIOD

H. W. Good operates on a monthly fiscal period basis. The Working Sheet, Balance Sheet, Profit and Loss Statement, adjusting entries, and the entries to close the ledger are illustrated on pages 167-170. The ledger, pages 161 to 166, contains the results of posting the opening entry, current entries, adjusting entries and closing entries.

Cash

PAGE 1

¹⁹ Oct. 1	Balance (5)	J. 17	101668	¹⁹ Oct. 31			
31		102461 C 20	137727			C 21	136914
			239375				239375
Nov. 1	Balance	✓	102461				

Notes Receivable

PAGE 2

¹⁹ Oct. 1	Balance (9)	J. 17	100 —	¹⁹ Oct. 25		C 20	100 —
27	30 days	J. 17	100 —				

A. P. Jennings

115 Main St., City

PAGE 3

¹⁹ Oct. 1	Balance (10)	J. 17	1827	¹⁹ Oct. 2		C 20	1827
5	10 days	S. 101 a	1625	9		C 20 a	10 —
11	30 days	S. 103	5625	18		C 20	25 —
27	10 days	S. 113	3850	26		C 20 a	625
29	30 days	112.25 S. 117	4350				4925

Central Hotel

216 Fairview Ave. City

PAGE 4

¹⁹ Oct. 1	Balance (11)	J. 17	6918	¹⁹ Oct. 6		C 20	50 —
26		19.18 S. 112	4425				

Park Hotel

165 Willis St., City

PAGE 5

¹⁹ Oct. 8	Weekly	S. 102	5935	¹⁹ Oct. 12		C 20	3050
16		S. 105	5140	22		C 20	2575
20		S. 107	13785				
24		S. 110	74250				
			39110				39110

M. A. Johnson

9 Jay St., Kingston

PAGE 10

¹⁹ Oct. 13	10 days	S. 104 a	5440	¹⁹ Oct. 18		C 20 a	35 —
26		63.65 S. 112	4425				
			9865				

PAGE 11

*James C. Wilson**416 Broad St. City*

¹⁹ Oct. 19	10 days	\$106 a	4430	¹⁹ Oct. 25	C 20 a	2215
23	30 days	\$108	13255			
29	10 days	192.26	\$115			
			23756			

PAGE 12

*C. L. Lord**R. F. D. No. 11, City*

¹⁹ Oct. 23	10 days	\$109	2605	¹⁹ Oct. 31	C 20	2605
-----------------------	---------	-------	------	-----------------------	------	------

PAGE 13

*Park Hotel**165 Willis St. City*

Oct. 24	Bal. Brok. Fwd.	9	33485	Oct. 27	C20	9125	
26	Weekly	\$111	8205	27	Bal. due 1/2	J17	10110
27		\$114	8025	31	C20	50	55
29	347.70	\$116	59290				

PAGE 27

Merchandise Inventory

¹⁹ Oct. 1	Inventory (14)	J 17	52165	¹⁹ Oct. 31	J 18	52165
31		J 18	109484			

PAGE 28

Supplies

¹⁹ Oct.	1	Inventory (18)	J 17	6255	¹⁹ Oct. 31	J 17	4237
	2		C 21	1685			
	13		C 21	19	3. Inventory	✓	8940
				8940			
				8940			8940
Nov.	1	Inventory	✓	4703			

PAGE 29

Prepaid Insurance

¹⁹ Oct. 1	Unexpired (19)	J 17	60 -	¹⁹ Oct. 31	J 17	10 -
			60 -			
Nov. 1	Unexpired	✓	50 -			

Equipment

PAGE 30

¹⁹
Oct. 2

J 17 475 -

Depreciation Reserve

PAGE 31

¹⁹
Oct. 31

J 17

950

Notes Payable

PAGE 33

¹⁹
Oct. 18

C 21

160 -

¹⁹
Oct. 1

Balance (25) J 17

160 -

13 30 days

J 17

275 -

J. A. Whitney & Co.

212 Oliver St., City

PAGE 34

¹⁹
Oct. 2

C 21

10866

¹⁹
Oct. 1

Balance (27) J 17

10866

Proctor & Gamble

Third Broadway, City

PAGE 35

¹⁹
Oct. 19

C 21

5802

¹⁹
Oct. 1

Balance (29) J 17

5802

Franklin Sugar Co.

1818 Oak St., City

PAGE 36

¹⁹
Oct. 17

C 21

13696

¹⁹
Oct. 3

¹⁰/₂-15 days P. 12

13696

29 ¹⁰/₂₈-10 days P. 12

20240

Winters Supply Co.

335 Broadway, City

PAGE 37

¹⁹
Oct. 13
13

C 21

200 -

¹⁹
Oct. 2

10 days

J 17

2475 -

J 17 2275 -

PAGE 38

*J. W. Allen & Co.**32 Center St., City*

¹⁹ Oct. 3	C21 a 89 65	¹⁹ Oct. 2	10/- 30 days P12 a 179 30
6	C21 b 97 -	5	10/- 30 days P12 b 194 -
29	C21 c 230 65	10	10/- 20 days P12 c 230 -
		15	P12 48 -
		23	10/22-30 days P12 199 10
		26	10/25-30 days P12 266 50

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*L. B. Dick & Co.**Springfield*

¹⁹ Oct. 15	P12	81 78
30	10/29-15 days P12	81 95

PAGE 40

*Lake View Creamery**76 Bank St., City*

¹⁹ Oct. 17	10/14-20 days P12	30 -
22	10/20-20 days P12	48 -

PAGE 45

N. W. Good, Capital

¹⁹ Oct. 1	Pres. Cap. (40) J17	1521 65
22	C20	2509 65
31	P.L. Summary J18	126 89
		2148 54
Nov. 1	Present Capital ✓	2148 54

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N. W. Good, Drawing.

¹⁹ Oct. 5	C21 50 -	¹⁹ Oct. 31	P.L. Summary J18	100 -
18	C21 50 -			100 -
	100 -			

Sales

PAGE 5

Oct. 27	J17	110	Oct. 6	C20	13210
31 Pr. Summary J18	152466		20	C20	14450
			31	C20	11025
			31	152466 J14	11389 1/2
		152576			152576

Purchases

PAGE 58

Oct. 3	P12	164709	Oct. 31 Inventory J18	109484
3	J18	52165	31 Pr. Summary J18	107390
		216874		216874

Rent Expense

PAGE 57

Oct. 1	C21	75-	Oct. 31 Pr. Summary J18	75-
--------	-----	-----	-------------------------	-----

Salary Expense

PAGE 58

Oct. 15	C21	3750	Oct. 31 Pr. Summary J18	75-
31	C21	3750		75-
		75-		

PAGE 59

Miscellaneous Expense

Oct. 4	Cr.	3 25	Oct. 31	Pr. L. Summary J18	12 —
12	Cr.	150			
25	Cr.	250			
31	Cr.	475			
		12 —			12 —

PAGE 60

Supplies Used

Oct. 31	J17	4237	Oct. 31	Pr. L. Summary J18	4237
---------	-----	------	---------	--------------------	------

PAGE 61

Expired Insurance

Oct. 31	J17	10 —	Oct. 31	Pr. L. Summary J18	10 —
---------	-----	------	---------	--------------------	------

PAGE 62

Depreciation Expense

Oct. 31	J17	950	Oct. 31	Pr. L. Summary J18	950
---------	-----	-----	---------	--------------------	-----

PAGE 63

Profit and Loss Summary

Oct. 31	Purchases J18	107390	Oct. 31	Sales J18	152466
31	Rent Expense J18	75 —			
31	Salary Expense J18	75 —			
31	Misc. Expense J18	12 —			
31	Supplies Used J18	4237			
31	Expired Ins J18	10 —			
31	Dep. Expense J18	950			
31	N. W. Good Draw J18	100			
31	N. W. Good Cap J18	12689			
		152466			152466

Working Sheet. The illustration below contains the Trial Balance, October 31, the net profit for the month of October and the proprietorship at the close of the October monthly fiscal period. The net profit and proprietorship were ascertained from the account balances on the Trial Balance and the following information: merchandise inventory, \$1,094.84; supplies inventory, \$47.03; prepaid insurance, \$50.00; estimated monthly depreciation on equipment, 2%.

The six columns at the right of the Trial Balance column in the illustration below were used for ascertaining net profit and present proprie-

A. W. Good
Working Sheet, October 31, 19

NAME OF ACCOUNT	TRIAL BALANCE		ADJUSTMENTS		BALANCE SHEET		P. & L. STATEMENT		
	DR.	CR.	DR.	CR.	ASSETS	LIAB&PROP	COST & EXP	INCOME	
Cash	102461				102461				
Notes Receivable	100-				100-				
A. R. Jennings	11225				11225				
Central Hotel	1918				1918				
Park Hotel	34770				34770				
M. T. Johnson	6365				6365				
James C. Wilson	19226				19226				
Merchandise Inventory	52165		109484	52165	109484				
Supplies	8940			4237	4703				
Prepaid Insurance	60-			10-	50-				
Equipment	475-				46550				
Depreciation Reserve				950					
Notes Payable		275-				275-			
Franklin Sugar Co.		20240				20240			
J. W. Allen & Co.		65025				65025			
L. B. Dick & Co.		16283				16283			
Lake View Creamery		78-				78-			
A. W. Good, Capital		202165				192165			
A. W. Good, Drawing	100-								
Sales		152466							152466
Purchases	164709		52165	109484			107390		
Rent Expense	75-						75-		
Salary Expense	75-						75-		
Miscellaneous Expense	12-						12-		
Supplies Used			4237				4237		
Expired Insurance			10-				10-		
Depreciation Expense			950				950		
	491479	491479	167836	167836	351702	351702	129777	152466	
Net Profit							22689	22689	
							351702	351702	152466

Illustration 29, Working Sheet

10342
62265

torship. The account balances on the Trial Balance which show assets, liabilities, proprietorship, income or expenses and which are not affected by inventories, are extended into one of the four columns at the right. Adjustments because of inventories are made in the Adjustments columns and the adjusted account balances extended into one of the four columns at the right. The depreciation reserve is recorded in the Adjustments column and subtracted from the Equipment account to show book value in the Assets column.

The sum of the October 1 merchandise inventory and the balance of the Purchases account is the total merchandise available for sale. This sum minus the October 31 merchandise inventory is the cost of merchandise sold.

Balance Sheet. The illustration below shows a Balance Sheet prepared in report form from the assets, liabilities, and proprietorship as stated in the Balance Sheet columns of the Working Sheet. The facts presented in this Balance Sheet show that Assets - Liabilities = Proprietorship.

N.W. Good
Balance Sheet, October 31, 19

<i>Assets.</i>			
<i>Cash</i>		<i>1024.61</i>	
<i>Notes Receivable</i>		<i>100 —</i>	
<i>Accounts Receivable:</i>			
<i>A.R. Jennings</i>	<i>112.25</i>		
<i>Central Hotel</i>	<i>19.18</i>		
<i>Park Hotel</i>	<i>347.70</i>		
<i>M.A. Johnson</i>	<i>63.65</i>		
<i>James C. Wilson</i>	<i>192.26</i>	<i>735.04</i>	
<i>Merchandise Inventory, Oct. 31</i>		<i>1094.84</i>	
<i>Supplies</i>		<i>47.03</i>	
<i>Prepaid Insurance</i>		<i>50 —</i>	
<i>Equipment</i>	<i>475. —</i>		
<i>Less Depreciation Reserve</i>	<i>9.50</i>	<i>465.50</i>	
<i>Total Assets</i>			<i>3517.02</i>
<i>Liabilities:</i>			
<i>Notes Payable</i>		<i>275 —</i>	
<i>Accounts Payable:</i>			
<i>Franklin Sugar Co.</i>	<i>202.40</i>		
<i>J.W. Allen & Co.</i>	<i>650.25</i>		
<i>L.C. Dick & Co.</i>	<i>162.83</i>		
<i>Lake View Creamery</i>	<i>78. —</i>	<i>1093.48</i>	
<i>Total Liabilities</i>			<i>1368.48</i>
<i>N.W. Good, Present Capital</i>			<i>2148.54</i>

Illustration 30, Balance Sheet, Report Form

The total assets on the Balance Sheet agrees with the total of the Assets column on the Working Sheet because the depreciation reserve is subtracted from the Equipment account to ascertain book value. The total liabilities on the Balance Sheet equals the total liabilities recorded first in the Liabilities column. The proprietorship shown on the Balance Sheet is the sum of the net investment and net profit recorded in the Liabilities and Capital column of the Working Sheet.

The Profit and Loss Statement. The illustration below shows the income from sales, cost of sales, gross profit on sales, expenses and net profit. This information is obtained from the Cost and Expense, and Income columns of the Working Sheet. The net profit is the profit on sales minus the expenses.

N. W. Good
Profit and Loss Statement for October, 19

<i>Income from Sales:</i>							
<i>Net Sales</i>							152466
<i>Cost of Goods Sold:</i>							
<i>Merchandise Inventory, Oct. 1</i>				521.65			
<i>Add Purchases</i>				1647.09	216874		
<i>Subduct Mdse. Inventory, Oct. 31</i>					109484		
<i>Cost of Goods Sold</i>							107390
<i>Gross Profit on Sales</i>							45076
<i>Operating Expenses:</i>							
<i>Rent Expense</i>					75	—	
<i>Salary Expense</i>					75	—	
<i>Miscellaneous Expense</i>					12	—	
<i>Supplies Used</i>					423	7	
<i>Expired Insurance</i>					10	—	
<i>Depreciation Expense</i>					95	0	
<i>Total Operating Expenses</i>							22387
<i>Net Profit</i>							22689

Illustration 31, Profit and Loss Statement

The Post-closing Trial Balance. The Trial Balance at the top of page 170 was prepared from the ledger, pages 161-166, after the adjusting and closing entries on pages 155 and 156 were posted and the Cash and Capital accounts balanced.

The information contained in this Post-closing Trial Balance is the same as that shown on the Balance Sheet; each contains the balances of the open accounts in the ledger after the ledger is closed.

H. W. Good
Post-closing Trial Balance, October 31, 19

1 Cash	102461	
2 Notes Receivable	100 —	
7 A. R. Jennings	11225	
8 Central Hotel	1918	
10 M. A. Johnson	6365	
11 James C. Wilson	19226	
13 Park Hotel	34770	
27 Merchandise Inventory	109484	
28 Supplies	4703	
29 Prepaid Insurance	50 —	
30 Equipment	475 —	
31 Depreciation Reserve		950
33 Notes Payable		275 —
36 Franklin Sugar Co.		20240
38 J. W. Allen & Co.		65025
39 L. B. Dick & Co.		16283
40 Lake View Creamery		78 —
45 H. W. Good, Capital		214854
	352652	352652

Illustration 32, Post-closing Trial Balance

CLASSIFICATION OF ACCOUNTS

Each account on the ledger contains a record of the changes in an asset, a liability, proprietorship, income or expense; the title of the account describes the nature of the element. The accounts on the ledger of H. W. Good, pages 161-166 grouped as suggested are:

ASSETS	LIABILITIES	PROPRIETORSHIP	INCOME	COST
Cash	Notes Payable	H. W. Good, Capital	Sales	Purchases
Notes Receivable	J. A. Whitney & Co.	H. W. Good, Drawing		
A. R. Jennings	Proctor & Gamble			EXPENSE
Central Hotel	Franklin Sugar Co.			Rent Expense
Park Hotel	Winters Supply Co.			Salary Exp.
M. A. Johnson	J. W. Allen & Co.			Misc. Expense
James C. Wilson	L. B. Dick & Co.			Supplies Used
C. L. Lord	Lake View Creamery			Expired Ins.
Mdse. Inventory				Deprec. Exp.
Supplies				
Prepaid Insurance				
Equipment				
—Deprec. Reserve				

The grouping above is given for classification purposes. Income and expense accounts are temporary proprietorship accounts and closed into

the proprietor's account at the close of the fiscal period, but are classified as income and expenses during the fiscal period.

Purchases is classified as a cost or an expense because it is shown on the Profit and Loss Statement as a part of the cost of goods sold. Each debit to the Purchases account represents an increase in the asset merchandise but usually the greater part of this merchandise has been sold and that part which has not been sold at the close of the fiscal period is transferred to the Merchandise Inventory account.

Depreciation Reserve may be classified as a *minus* asset or a *valuation* account. Either classification indicates that the credit balance is not a liability, but a deduction from an asset to determine the book value of the asset.

Exercise 66, Review of the Model Set

(ORAL)

1. Under what conditions is it necessary to open a new ledger?
2. What transactions are recorded in the purchases journal?
3. What transactions are recorded in the sales journal?
4. What transactions are recorded (a) on the receipts side of the cash book? (b) on the payments side?
5. When is the Trial Balance prepared?
6. What is the purpose of the Trial Balance?
7. Why is it necessary to know the merchandise inventory at the close of the fiscal period?
8. Why is it necessary to know the supplies inventory at the close of the fiscal period?
9. Why is it necessary to know the amount of the unexpired insurance at the close of the fiscal period?
10. Could the records be kept so that the asset values suggested in the three preceding questions can be obtained from account balances? How?
11. The cost value of the merchandise is recorded in each sale. (a) Is it necessary to take stock? (b) Why?
12. What is the purpose of the Working Sheet?
13. What is the purpose of (a) the Adjustments columns on the Working Sheet? (b) Balance Sheet columns? (c) Profit and Loss Statement columns?
14. What effect does an amount in the debit Adjustments column have on an account balance in the Trial Balance column on the same line with it?
15. What effect does an amount in the credit Adjustments column have on an account balance in the Trial Balance column on the same line with it?
16. At the close of the fiscal period, the debit balance of the Merchandise Inventory account was \$12,500.00 and the Purchases account was \$18,000.00; the merchandise inventory was \$10,000.00. (a) What was the cost of the goods sold during the fiscal period? (b) How was it recorded?

17. What figures are placed in the Adjustments columns on the Working Sheet to adjust the Merchandise Inventory and Purchases accounts mentioned in the preceding question?

18. What is the purpose of the Balance Sheet and how is the desired information shown on it?

19. What is the purpose of the Profit and Loss Statement and how is the desired information shown on it?

20. What two columns on the Working Sheet may be used as a basis for the adjusting entries?

21. What two columns on the Working Sheet may be used as a basis for the closing entries?

22. Why are the adjusting entries recorded in the ledger and the temporary proprietorship accounts closed at the close of each fiscal period?

23. What two columns on the Working Sheet agree with the account balances in the ledger after it is closed?

24. Could the ledger be closed and the Balance Sheet and Profit and Loss Statement prepared from it after closing?

25. (a) Should the bookkeeper close the ledger before preparing the Balance Sheet and Profit and Loss Statement, from what account in the ledger would the Profit and Loss Statement be prepared? (b) What account balances in the ledger would appear on the Balance Sheet?

Exercise 67, Reports and Closing Entries

The Trial Balance in the illustration at the right is the one from which the Balance Sheet for H. W. Good, page 154, was prepared, September 30. The inventories are as follows: merchandise, \$521.65; supplies, \$62.55; prepaid insurance, \$60.00. From the account balances and the facts stated regarding the inventories, prepare (a) a Working Sheet, (b) Balance Sheet, (c) Profit and Loss Statement, and (d) adjusting and closing entries. The net profit should be \$221.65 and the present capital \$1,521.65.

H. W. GOOD
TRIAL BALANCE, September 30, 19

Cash.....	1016 68		
Notes Receivable.....	100		
A. R. Jennings.....	18 27		
Central Hotel.....	69 18		
Merchandise Inventory.....	321 16		
Supplies.....	103 42		
Prepaid Insurance.....	70		
Notes Payable.....		160	
J. A. Whitney & Co.....		108 66	
Procter & Gamble.....		58 02	
H. W. Good, Capital.....		1300	
Sales.....		1776 40	
Purchases.....	1540 87		
Rent Expense.....	75		
Salary Expense.....	75		
Miscellaneous Expense.....	13 50		
	<u>3403 08</u>	<u>3403 08</u>	

CHAPTER XV

BUSINESS FORMS AND VOUCHERS

The usual business forms which represent transactions are illustrated in Chapter VII. The discussion in this chapter provides a review of these business forms and information regarding transactions with a bank.

Invoice for Goods Purchased. The illustration below shows the invoice rendered for merchandise purchased by H. W. Good from J. W. Allen & Co. The check mark at the right of J. W. Allen & Co. indicates that the record has been made in the purchases journal (first entry, Illustration 25, page 157). The other check marks indicate that the invoice has been verified.

J. W. ALLEN & CO. ✓ WHOLESALE GROCERS 32 CENTER STREET CINCINNATI			
Ord. No. & Date Requisition No. Contract No. Shipped To Destination	Invoice Date October 1, 19 Invoice No. 7992 Shipper's Order No.	Orders received for use of statement P. A. Invoice No. Voucher No.	
Shipped To H. W. Good Destination City			
Terms: 1/3 Cash; balance 30 days	H. W. Good 512 So. Main St. City		
Date Shipped Oct. 1 From _____ F. O. B. _____ Car No. and Int. _____ How Shipped and Route Delivered			
DESCRIPTION	QUANTITY (SHOW UNIT)	PRICE PER UNIT	AMOUNT
13 bbls. Superior Flour	13	8.10	105.30
6 bbls. White Rose Flour	6	7.25	43.50
10 doz. cans Pineapple	10	2.25	22.50
2 buckets Candy	2	4.00	8.00
			179.30
Above Materials received <u>Oct. 1, 19</u> and found _____ satisfactory (Signed) <u>W. M. Spence</u> (Title) <u>Check</u> Charge Account _____ Approved _____ Approved _____			

Illustration 33, Purchase Invoice

This is the National Standard Invoice Form, adopted by a national conference held under the auspices of Division of Simplified Practice, Department of Commerce, Washington, D. C.

Invoice for Goods Sold. The retail merchant usually renders sales invoices only when requested to do so by the charge customer. When a sales invoice is not rendered, the order is acknowledged by a sales ticket. The sales ticket is illustrated on page 76 and the sales invoice on page 174.

The illustration below shows the sales invoice rendered by H. W. Good to the Park Hotel. The check marks indicate verification before the sales invoice was recorded in the sales journal, second entry on page 157.

H. W. GOOD

DEALER IN

Fancy Groceries,Provisions and Country Produce

October 8 19

Sold to Park Hotel✓

No. 102

Terms Weekly

165 Vallis St. City

QUANTITY	ITEMS	PRICE	DOLLARS	Cts	TOTAL
10	lbs. St. Nicholas Coffee	.30	.3	—	✓
3	Premium Ham, 29 1/2 lbs.	.30	8	85	✓
3	bbls Superior Flour	900	27	—	✓
2	doz jars Assorted Preserves	500	10	—	✓
3 1/2	doz cans Cherries	300	10	50	✓
					59 35✓

Illustration 34, Sales Invoice

A Bill. The illustration below shows the October telephone bill rendered to H. W. Good and paid by him October 4 (see page 159). Payment is acknowledged through receipting the bill. A list showing services rendered and the charge therefor is usually referred to as a *bill*.

LAST DAY OF PAYMENT OCTOBER 18th

Cincinnati, O., October 1, 19

THE BELL TELEPHONE CO.

Telephone Building, 225 E. Fourth Street, Cincinnati, O.

See back of bill for rules and regulations regarding the billing and collection of accounts.

H. W. GOOD

512 SO. MAIN ST.

CINCINNATI, OHIO

M. 1263

EXCHANGE SERVICE FOR OCTOBER 1 TO 31, 192 INCLUSIVE

3 85

ADDITIONAL LOCAL MESSAGES SEPT. 1 TO 30, 192

TOLL SERVICE STATEMENT HEREWITH

BALANCE DUE ON BILL PREVIOUSLY RENDERED

Office closed on Legal Holidays and at 12 Noon on Saturdays.

Illustration 35, Receipted Bill

A Receipt. A written acknowledgment of cash received is referred to as a *receipt*. A receipt is issued by the one receiving the cash and issued to the one from whom the cash was received. The form of receipt illustrated in

Chapter VII is used quite extensively in business when cash receipts and payments are with money. When payment is made by check, the canceled check is usually regarded as sufficient receipt as explained in this chapter.

TRANSACTIONS WITH THE BANK

Opening an Account with the Bank. An account is opened with a bank through the permission of the proper bank official. When this permission has been granted and money deposited with the bank, the one making the deposit is known as the *depositor* or *customer* of the bank. A depositor opens an account with the bank to provide a safe place for his money and a convenient means of paying it.

Deposit Ticket. The blank provided by the bank on which to list the money or money and cash items to be deposited is referred to as a *deposit ticket*. Deposit tickets are usually supplied the depositor in pads, but some banks provide them bound in a book arranged so that the depositor may retain a carbon copy of the items deposited.

One form of deposit ticket is illustrated at the left.

Johnny
Specie refers to silver money, nickels and pennies; half dollars, quarters, dimes, nickels, and pennies should be wrapped in coin wrappers provided by the bank. Bills refer to paper money; they should be arranged in the order of the denominations with the smallest denomination on top. As explained on the deposit ticket, the name of the bank or the town for out of town banks is to be indicated on a line with the amount of each check. If desired, however, the A. B. A. numbers may be used in place of the title of the bank or name of the town; see number at the left of the bank on the Berwick, Pa., check on page 181, and information in regard to A. B. A. numbers on page 185. Banks usually print on the deposit ticket the information which they desire depositors to show. "P. O. Money Order" and "Express Money Order" indicate the nature of the last two items on the deposit ticket illustrated. The \$200.37 is the sum of the items deposited.

DEPOSITED FOR		
<i>A. W. Good</i>		
NAME		
<i>512 So. Main St.</i>		
ADDRESS		
IN THE		
MERCHANTS NATIONAL BANK		
<i>October 6, 19</i>		
ALL CHECKS, NOTES AND DRAFTS CREDITED, SUBJECT TO ACTUAL COLLECTION		
PLEASE LIST EACH CHECK SEPARATELY		
	Dollars	Cents
SPECIE	<i>14</i>	<i>37</i>
BILLS	<i>82</i>	<i>—</i>
CHECKS		
When in City, state name of Bank, out of City, name of place where payable		
<i>"City Natl Bank</i>	<i>50</i>	<i>—</i>
<i>"Springfield St</i>	<i>18</i>	<i>55</i>
<i>"P. O. Money Order</i>	<i>10</i>	<i>45</i>
<i>"Express</i>	<i>25</i>	<i>—</i>
Total	<i>200</i>	<i>37</i>
See that All Checks And Drafts Are Endorsed		

Illustration 36, A Deposit Ticket

Signature Card. The new depositor is required to sign his name on a card in the same manner as he will sign it on checks which he issues for payment by the bank. The card on which the depositor writes his signature is referred to as a *signature card*.

The illustration at the right shows one form of a signature card. The depositor, H. W. Good, has signed his name in the same form as he will sign checks. His bookkeeper has also signed the signature card in the same form as he will sign the name of H. W. Good.

The purpose of the signature card is to provide the bank with a record of the depositor's signature or the signature for the checks issued against the funds deposited by him. With this information the bank has a means of protecting itself against loss through *forgery*.

Date <u>August 3 19</u> MERCHANTS NATIONAL BANK WILL	
PLEASE RECOGNIZE IN PAYMENT OF FUNDS OR THE TRANSACTION OF OTHER BUSINESS ON MY	
ACCOUNT THE AUTHORIZED SIGNATURES BELOW	
<u>H. W. Good</u>	Signature
<u>H. W. Good</u>	Signature
<u>By D. R. Haines</u>	Signature
	Signature
Phone <u>Main 1263</u>	<u>512 So Main St.</u> Address
Name of Individuals to be filled in by Bank	Address of—
<u>H. W. Good</u>	<u>Mr.</u>
771	Mon. M-F. Th. Sat. or about 10 A.M.

Illustration 37, Signature Card

The Pass Book. The ruled blank provided by the bank containing a record of the deposits made by a depositor is referred to as a *pass book*. All entries in the pass book are made by an official of the bank, hence the pass book provides the depositor with a receipt for all cash deposited in the bank by him. The depositor should present his pass book with each deposit so that the receiving teller may enter therein the date and amount of the deposit.

At the end of each month the depositor may be required to leave his pass book at the bank to be balanced. Later it will be returned to him with the balance on deposit at the close of the month stated in it. The method of stating the balance is shown in the pass book, Illustration 41. The explanation given in connection with the illustration contains further information regarding the use of the pass book.

Withdrawing Money from the Bank. The depositor withdraws money which he has deposited in the bank through a written order known as a *check*. No standard form is necessary, but for the convenience of the depositor and the employees of the bank, it is customary for the bank to provide the depositor with printed forms usually referred to as *blank checks*. These blank checks are usually bound in a book with a stub attached to each check. The depositor uses the blank check for writing his order on the bank and the stub for a record of the check. Space is provided on the check and on the stub for a number. The depositor should number each check and its corresponding stub with the same number, arranging the numbers consecutively beginning with the first check issued.

Illustration 38 shows a check book with two checks to the page. The first check is filled out to be given to J. J. Kline. The stub contains the informa-

tion needed by H. W. Good, the depositor. The columns between the stub and the check are for the convenience of the depositor when keeping a record of his transactions with the bank.

Bal. Carried Forward 1016 65 Deposit, _____ No. _____ Date <u>Oct 1</u> , 19____ Favor <u>J. J. Kline</u> For <u>Rent Expense</u> Amount, \$ <u>75.00</u> Balance 941 65		H. W. GOOD RETAIL GROCERIES	No. <u>92</u> CINCINNATI, <u>October 1</u> 19____ MERCHANTS NATIONAL BANK 13-10 Pay to the order of <u>J. J. Kline</u> \$ <u>75.00</u> <u>Seventy-five and 00/100</u> Dollars <u>H. W. Good</u> By your name _____
Deposit, _____ No. _____ Date _____, 19____ Favor _____ For _____ Amount, \$ _____ Bal. Carried Forward _____			No. _____ CINCINNATI, _____ 19____ MERCHANTS NATIONAL BANK 13-10 Pay to the order of _____ \$ _____ _____ Dollars By _____

Illustration 38, Check Book

Writing a Check. A check should be written in the following order:

- (1) Enter the desired information on the *stub*; this includes all the information to be put on the check, also the name of the account to be debited.
- (2) Enter on the *check* the desired information as follows:
 - (a) The number of the check.
 - (b) The date which includes the month, day of the month and year.
 - (c) The name of the person or firm to whom the check is payable.
 - (d) The amount, both in writing and in figures.
 - (e) Signature of the depositor as stated on the signature card.

If the check is signed by an agent, the name of the agent should appear below the name of the depositor in the same manner as it is written on the signature card. In Illustration 38, the "your name" refers to the name of the student, since this check is used as a model by the student when writing the first check in the practice set.

The reason for the check may be written in the lower left hand corner of the check. "Cash purchase", "In full of account", "To apply on purchase of October 1", or "October rent" would indicate the purpose.

If the depositor or his authorized agent wishes to withdraw cash from the bank, it will be necessary for him to write a check in the same form as that used when the bank is ordered to pay the money to a third party. The check may be made payable to the depositor, to "Cash" or to the purpose for which the check is issued, as "Pay roll" or "Stamps". The one who presents the check to the bank for the money is usually required to sign his name on the back of the check so that the bank may know to whom the money was paid.

Depositor's Record of the Transactions with the Bank. Each depositor should keep a record of the transactions which he completes with the bank. This includes the date and amount of each deposit, the date and amount of each check written, and the balance after the check is written or the balance at the end of the month. This record may be kept on the check stub as in Illustration 38, page 177, or in the check register as in Illustration 39, below.

For a record of the cash receipts and payments, see the cash book on pages 158 and 159.

Check Register

DATE	No.	ORDER OF	FOR	AMOUNT OF CHECK	DATE OF DEPOSIT	AMOUNT OF DEPOSIT	BALANCE
Oct. 1		Balance					1016.68
1	92	J. J. Kline	Oct. rent	75 +			941.68
2	93	J. A. Whitney & Co.	In full of acct.	108.66			833.02
2	94	Johnson Supply Co.	Wrapping paper	16.85			816.17
3	95	J. W. Allen & Co.	1/2 of Pur. of 10/2	89.65			726.52
4	96	Bell Telephone Co.	Telephone service	32.5			723.27
5	97	H. W. Good	Personal use	50 +			673.27
6	98	J. W. Allen & Co.	1/2 of Pur. of 10/4	97 +	Oct. 6	200.37	776.64
13	99	Winters Supply Co.	In full of acct.	200 -	13	39.4	615.64
13	100	Cash	Stamps	10 -			605.64
15	101	W. M. Spence	Salary	37.50			568.14
17	102	Franklin Sugar Co.	In full of acct.	136.96			431.18
18	103	H. W. Good	Personal use	50 -			381.18
18	104	Scott Bros.	Part of 60 day note	160 -			221.18
19	105	Proctor & Gamble	In full of acct.	58.02	20	204.50	557.66
25	106	Daily News	Advertisement	250	27	745.40	1105.66
29	107	J. W. Allen & Co.	Full of Pur. of 10/9	230 -			880.56
31	108	City Water Works	Water	150			879.06
31	109	National Light Co.	Light	32.5			875.81
31	110	W. M. Spence	Salary	375.00	31	1863.40	1024.61

Illustration 39, A Check Register

The purpose of the above illustration is to avoid the possibility of the depositor's asking the bank to pay more money than he has on deposit. Since this information will be needed at the time a check is issued, the balance in the bank should be shown either on the stub or in the check register after the amount of the check is deducted or a deposit is added. The record maintained by the depositor should be such that it may be compared with the record maintained by the bank, since the two records should agree when all checks issued have been paid by the bank.

Bank Record. The bank maintains a record of the transactions completed with each depositor. The information for this record is obtained from the deposit tickets prepared by the depositor and the checks issued by the depositor and paid by the bank. As a result of these transactions, the balance of the account with each depositor on the ledger of the bank will be the amount the bank owes the depositor.

Banks usually provide each depositor with a statement of his account at the end of each month. This statement shows the balance at the beginning of the month, the deposits made by the customer during the month, the date

on which each was made, the amount of each check paid by the bank, the date paid, and the balance at the end of the month. This statement and the canceled checks are given to the depositor so that he may *reconcile* his record with that of the bank. Illustration 40 below shows the usual form of monthly statement rendered by the bank to its depositors.

H. W. Good				15	
IN ACCOUNT WITH				VOUCHERS RETURNED	
THE MERCHANTS NATIONAL BANK					
REPORT PROMPTLY ANY CHANGE IN YOUR ADDRESS					
PLEASE EXAMINE AT ONCE | IF NO ERROR IS REPORTED WITHIN TEN DAYS THIS ACCOUNT WILL BE CONSIDERED CORRECT					
DATE	CHECKS IN DETAIL			DATE	DEPOSITS
BALANCE BROUGHT FORWARD					\$1016.68
Oct. 3	75.00 - ✓	16.85 - ✓			
5	108.66 - ✓	50.00 - ✓	3.25 - ✓		200.37 ✓
9	97.00 - ✓	89.65 - ✓			39.00 ✓
15	200.00 - ✓	10.00 - ✓	37.50 - ✓		
18	136.96 - ✓	50.00 - ✓			204.50 ✓
23	160.00 - ✓	58.02 - ✓			745.40 ✓
31	37.50 ✓				186.30 ✓
BALANCE					\$1261.66

Illustration 40, Bank Statement

Reconciliation of the Bank Account. When the depositor receives his monthly statement from the bank, he should compare the bank's balance with the balance on the check stub or check register. The two balances will be the same if all checks written by the depositor have been paid by the bank and no errors in the calculations have been made either by the depositor or by the clerical workers in the bank.

If all the checks issued by the depositor have not been paid by the bank, the balance in the bank will be larger than that shown by the depositor's record. This difference should be reconciled to see if the sum of the unpaid checks when deducted from the bank balance will give the balance in the depositor's record. The usual process of reconciliation is as follows:

(1) Compare the amount of each deposit on the bank statement with the amount of each deposit on the check stub or check register.

(2) Compare the amount of each canceled check returned by the bank with the stub from which it was removed. Place a check mark at the right of the amount on the check stub to indicate verification.

(3) Ascertain the sum of the unpaid checks. The balance in the bank as shown by the stub or check register plus the sum of the unpaid checks should be the same as the balance on the bank statement.

The illustration at the right shows the method of reconciling the check register on page 178 with the bank statement on page 179. Each canceled check returned by the bank is compared with the stub from which it was removed and with the record in the check register. Four checks, Nos. 106, 107, 108 and 109, have not been paid. The amount of each unpaid check is written under the check register balance. The sum of these five amounts gives the balance shown by the bank statement.

Check Register Balance 10/31.....	\$1024.61
Unpaid Checks:	
No. 106.....	2.50
No. 107.....	230.00
No. 108.....	1.50
No. 109.....	3.25
Bank Balance 10/31.....	\$1261.86

A daily proof of cash for proof of cash before making a deposit will facilitate the reconciliation of the bank statement with the record on the check stub at the end of the month. For this reason, it is customary to prove cash before depositing money in the bank.

Balancing the Pass Book. As stated on page 176, some banks require each depositor to leave his pass book at the end of the month so that the balance may be entered in it. Illustration 41 below shows a pass book in which the bank has stamped the date of the bank statement for three consecutive months. The October balance, \$1,261.86, is the same as the October statement, Illustration 40. This bank enters the deposits on both sides of the pass book using the stamp to indicate the date on which a statement was rendered and the balance due the depositor as shown by the statement.

MERCHANTS NATIONAL BANK

IN ACCOUNT WITH

H. W. Good

	19	19	
Aug 4	413818	Oct 6	20097
18	163	16	39
25	21016	20	20450
31	43118	27	74540
		31	18630
CREDITS \$4939 ⁵²		TOTAL CREDITS \$1375 ⁵²	
TOTAL WITHDRAWALS \$2313 ¹¹		TOTAL WITHDRAWALS \$1130 ³²	
BALANCE \$2626 ⁴⁷ - DATE 8/31		BALANCE \$1261 ⁸⁶ - DATE 10/31	
Sept 10	41382		
16	11969		
23	22177		
30	34956		
TOTAL CREDITS \$1085 ⁴⁰			
TOTAL WITHDRAWALS \$2695 ³²			
BALANCE \$1016 ⁸⁸ - DATE 9/30			

Illustration 41, Pass Book

Some banks use the left hand page of the pass book for deposits and the right hand page for the total checks returned to the depositor. When this plan is followed, the pass book is balanced at the end of each month similar to the cash book, pages 132 and 133.

Cash Items. The term "cash" is used in business to describe currency, bank checks, and other commercial papers used for and in the place of money. Sometimes a distinction is made between money and cash items, money being described as *cash* and checks as *cash items*. Cash items usually consist of (a) bank checks, (b) bank drafts, (c) cashier's checks, (d) express money orders, and (e) post office money orders.

All of these forms of cash items are a means of paying cash without handling the money. The arrangement of the facts in a cash item does not change its purpose.

(A **Bank Check** is a written order by a depositor on the bank in which he has money deposited to pay money on deposit.) The depositor may use the blank forms provided by the bank or he may prepare his own blanks in any form desired. Banks place no restriction on the form provided by the depositor, but recommend that the size of each blank check be three and three-eighths inches wide by eight and three-eighths inches in length.

The illustrations below show two forms of bank checks. Each is a written order on a bank to pay the amount stated but the arrangement is different. The size in each illustration is not the standard suggested above because of the reduction necessary to reproduce on this page.

PENNSYLVANIA.	BERWICK, PA. <i>July 16, 19</i> No. _____	
	60-713 THE BERWICK NATIONAL BANK 60-713	
	PAY TO <i>Allen Bond</i> OR ORDER \$ <i>75⁰⁰</i>	
	<i>Seventy-five and 00/100</i> DOLLARS	
	SAFE DEPOSIT BOXES FOR RENT <i>Albert Smith</i>	

Illustration 42, A Bank Check

Cincinnati. <i>January 24, 19</i> No. _____	
Pay to the order of <i>James Marshall</i> \$ <i>50⁰⁰</i>	
<i>Fifty and 00/100</i> DOLLARS	
The Fourth National Bank, 13-4 Cincinnati, O. }	<i>E. W. Watson</i>

Illustration 43, A Bank Check

A Bank Draft. A check drawn by one bank on funds deposited in another bank is referred to as a *bank draft*. When an individual does not have a checking account and, therefore, can not send his personal check through

the mail, or when he does not believe that his personal check will be accepted, he can purchase a draft from a local bank. It is satisfactory to send a draft through the mail since it is payable only to the one in whose favor it is made, or on his order. If it is lost, its value can be recovered. It is more likely to be accepted by the one to whom it is sent than a personal check since one can easily determine the standing of a bank and whether its draft is good.

J. L. Nixon wishes to send \$50.00 to W. O. Barnes in another city. He gives the bank \$50.00 and receives a bank draft payable to W. O. Barnes and mails this to him. C. L. Mason of Clinton wishes to purchase an article which costs \$125.00, from Day & Son, Chicago. He gives a Bank in Clinton his check for \$125.00 and receives a Chicago draft. This draft mailed to Day & Son will insure prompt shipment.

There are many other uses of the bank draft, but the two given will serve to show the need for this form of cash item or *commercial paper*.

The Cincinnati Bank & Trust Co. 13-66
No. 18871
Cincinnati, Sept. 17 19
PAY TO THE ORDER OF
Acme Manufacturing Co. \$125.00
ONE HUNDRED TWENTY FIVE DOLLARS
To CHEMICAL NATIONAL BANK
1-12 NEW YORK, N. Y.
L. A. Mason
CASHIER

Illustration 44, Bank Draft

A Cashier's Check. A check drawn on a bank by its cashier is referred to as a *cashier's check*. A cashier's check is used by the issuing bank in payment for operating expenses of the bank, proceeds of notes collected by the bank, and many other forms of obligations which require the bank to make payments of cash. Cashier's checks are sometimes used for the same purpose as bank drafts where remittances are to be sent to a nearby city and the one making the remittance does not wish to send the money or a personal check.

HOUSTON, TEXAS, February 15 1920
THE PEOPLES STATE BANK 35-70
PAY TO THE ORDER OF C. M. Young \$100.00
One hundred and 00/100 DOLLARS
CASHIER'S CHECK
J. J. Arnold
CASHIER

Illustration 45, Cashier's Check

A Money Order is an order on an express company or a postmaster. The purpose of money orders is the same as the bank draft, that is, a means of sending money through the mail. Money orders are also used for making remittance for parcel post and express *cash on delivery (C. O. D.) shipments*.

A money order drawn on an express company is referred to as an *express money order* and a money order drawn on a postmaster as a *postal money order*. A special form of money order known as a *traveler's check* is issued by both the American Express Company and the American Bankers Association.

Indorsement of Checks. At least three parties are financially interested in each check, (a) the depositor who signs it, (b) the bank ordered to pay it, and (c) the payee, that is, the one to whom the bank is authorized to pay the money. When a check has served its purpose, the name of each of these parties will have been written or stamped on it.

The depositor writes his name on the face of the check at the time he issues it. The payee writes his name on the back at the time he receives the cash or its equivalent. The name of the bank, the date the check is paid, and the word "Paid" are indicated on the face of the check by the bank at the time the check is paid.

The name of the depositor on the face of the check is referred to as the *signature*; the name of the payee on the back of the check as the *indorsement*; the date of payment and name of the bank on the face of the check as the *cancellation*. A *canceled check* is one that contains the signature, the indorsement and the cancellation.

Position of Indorsement. All indorsements are written on the back at a right angle to the writing on the check, that is they are written crosswise on the check instead of lengthwise. The first indorsement is written about one inch down from the edge of the left end; the left end is the left of the check when in position for reading. Subsequent indorsements are written below the first indorsement and parallel to it. The illustration on page 184 shows the position of indorsements. With the exception of those made with a rubber stamp the indorsements are parallel as suggested.

The Purpose of the Indorsement of a check is to acknowledge receipt of the money, to transfer the title, or for identification. An indorsement acknowledging receipt of the money requires the name of the payee only and is referred to as an indorsement *in blank*. An indorsement transferring the title may be in blank or may contain the words "Pay to the order of" written above the name of the one to whom the title is transferred; this latter form of indorsement is referred to as *in full*.

When the title is transferred by an indorsement in blank, subsequent indorsements are not necessary unless required by the one to whom the title is transferred. When the title is transferred by an indorsement in full, the one to whom the title is transferred must indorse the check before he can receive

the money. A *restrictive indorsement* is one which transfers the title for a specific purpose. An example of this is "For deposit" written above the indorsement. Each indorser for transfer is responsible for payment unless "Without recourse" is written in connection with the indorsement; when this is done, it is said to be a *qualified indorsement*.

The purpose, position, and nature of indorsements are further explained by the following illustrations:

James Carr of Cincinnati, Ohio, owed W. B. Spencer of Little Rock, Arkansas, \$35.68. April 20, he paid this indebtedness by check on the First National Bank of

Cincinnati. The face of the check when issued is shown in the first illustration at the right; the back at that time was blank. The second illustration at the right shows the face of the check when James Carr received it together with his other canceled checks from the bank June 1. The dots indicate punched holes in the canceled check which read "Paid, 5-3-27, 13-1." The third illustration at the right shows the information on the back of the canceled check.

The information on the back of the canceled check may be interpreted as follows:

W. B. Spencer secured the cash or its equivalent from C. H. Lowe and

ordered the amount of the check to be paid to him by an indorsement in full. C. H. Lowe secured cash or its equivalent from Martin Bros. and transferred

CINCINNATI, OHIO, April 20		1927	No. 107
FIRST NATIONAL BANK 13-1			
PAY TO THE ORDER OF		W. B. Spencer-	\$25.68
Thirty-five and		-68/100	DOLLARS
<i>James Carr</i>			

Front of Check When Issued

CINCINNATI, OHIO, April 20		1927	No. 107
FIRST NATIONAL BANK 13-1			
PAY TO THE ORDER OF		W. B. Spencer-	\$25.68
Thirty-five and		-68/100	DOLLARS
<i>James Carr</i>			

Front of Canceled Check

Pay to the order of C. H. Lowe W. B. Spencer C. H. Lowe Pay to the order of Peoples Savings Bank For deposit MARTIN BROS.	PAY TO THE ORDER OF ANY BANK, BANKER OR TRUST CO PRIOR ENDORSEMENTS GUARANTEED MAY 2, 1927 COMMERCIAL NATIONAL BANK 23 OF CHICAGO 23 E. R. DANIEL, CASHIER
--	--

Back of Check Showing Indorsements

the check to them by an indorsement in blank. Martin Bros. deposited the check in the Peoples State Bank by a restrictive indorsement. The three bank indorsements are for the purpose of making collection.

It is customary in business to deposit a check as soon after it is received as possible. For this reason, the usual indorsement on a check is that of the payee for deposit in his bank. When a check is used for any other purpose, the one receiving it should require indorsement to show transfer of title.

The indorsement of bank drafts and money orders is for the same purpose as checks, hence made in the same manner. Post office money orders provide for the signature of the payee on the front but additional indorsements for collection may be made on the back.

Protest. When a bank check or bank draft is presented to the bank on which it is drawn and payment refused because the depositor does not have sufficient funds on deposit, it is said to be *dishonored* and each indorser may be held responsible for payment. The usual plan is to protest the dishonored paper. This protest is effected through a *notice of protest*. This notice of protest is issued by a notary public under his seal, the original mailed to the one who signed the check or draft and a copy sent to each indorser.

A dishonored check or bank draft is returned by the bank which protested it to the bank from which it was received. The bank to which the dishonored paper is returned will in turn return it to the bank from which it was received. This plan is followed until the dishonored paper has been returned to the bank in which it was deposited. This bank will present the dishonored paper to the depositor who deposited it and receive his check for the amount.

Some banks debit the depositor with the amount of the dishonored paper, but the usual plan is to collect from the depositor thus permitting all debits to his account to be made from checks issued by him.

A. B. A. Numbers. A greater part of the records of a bank relate to the collection of checks which have been received from depositors as money. In so far as possible these records are made on machines. To facilitate the records in connection with the collection of checks, the American Bankers Association of the United States (A. B. A.) has devised a series of numbers to describe the name and address of member banks, thus permitting the use of a number to describe the name and address of a bank. The number is usually printed on the check at the left or right of the name of the bank.

The small numbers shown in connection with the title of the bank in each illustration of a check in this text are the A. B. A. numbers used for the purpose described.

Federal Reserve Banks. There are twelve reserve banks each numbered consecutively beginning with one. Many member banks of the reserve system print on their checks the number of the district in which their bank is located; thus, the "4" in large type on the check in Illustration 43, page 181, indicates that the bank is located in the Fourth Federal Reserve District. The reserve bank for the fourth district is located in Cleveland, Ohio.

Exercise 68, Commercial Papers

(ORAL OR WRITTEN)

1. The indorsements on the back of a canceled check are shown at the right. (a) How many times was this check transferred? (b) What is the nature (in full, in blank or restrictive) of each indorsement?

J. L. Doyle

Pay to the order of
Robert Austin
W. B. Maine

For Deposit
Robert Austin

2. James Dawson has a check payable to himself for \$75.00 signed by Joseph Smith. Show the necessary indorsements if the check is transferred (a) by the payee to A. L. Ball by an indorsement in full, (b) by A. L. Ball to C. H. Shoe by an indorsement in blank, (c) by C. H. Shoe to Abbott Bros. by an indorsement in blank, (d) by Abbott Bros. to the City National Bank for deposit?
3. Who is responsible for the payment of a postal money order? Why?
4. If the holder of a postal money order for \$25.00 loses it, how may he avoid the loss of the money?
5. Can the finder of an express money order which is indorsed in blank secure the amount of money mentioned in the money order?
6. If the owner of a business cashes a check at the bank using one of the blanks on the counter and fails to fill out a stub and remove the blank check in the check book, when would his bookkeeper know that the check had been issued?
7. The information in the illustration at the left appears on the stub of a check, supplied a depositor by the City National Bank. (a) What information was written on the check? (b) What entry will be required to record the check?

No. 345
Date..... March 5, 19.....
Favor..... Morton Mfg. Co.....
For..... In full of account
Amount.... \$121.83

8. The bookkeeper issues a check but forgets to provide the needed information on the stub. How may he secure this information?
9. If it is desired to retain a copy of each deposit ticket, how can this be done?
10. The information in the illustration at the left appears on the stub of a check, supplied a depositor by the City National Bank. (a) What entry will be required for this payment? (b) What effect does this transaction have on the assets and expenses?

No. 123
Date..... May 1, 19.....
Order of..... L. A. Starr.....
For..... May rent.....
Account..... Rent Expense.....
Amount..... \$150.00

Exercise 69, Reconciliation of the Bank Account

The first illustration below shows the bank's monthly statement of its transactions and the second illustration, the depositor's record in check register form.

MILLER, JAMES M.

15

IN ACCOUNT WITH FIRST NATIONAL BANK

VOUCHERS
RETURNED

DATE				CHECKS IN DETAIL	DATE	DEPOSITS
BALANCE BROUGHT FORWARD					June 1	\$613.28
June 5	100.00	21.50	6.27			
9	1.00	2.08	6.00		June 10	150.00
15	21.76	9.13	1.82			
20	16.19	51.22	12.50		20	50.00
30	16.49	19.67	101.28		25	150.00
					BALANCE	\$576.37

CHECK REGISTER

DEPOSITS				CHECKS			Balance
Date	Amount			Date	Check No.	Amount	
			June 1	1			613.28
				2	217	100	513.28
				3	218	21.50	491.78
				3	219	6.27	485.51
				4	220	13.32	472.19
				6	221	1	471.19
				7	222	2.08	469.11
				8	223	6	463.11
June 10	150						613.11
				11	224	21.76	591.35
				13	225	9.13	582.22
				14	226	1.82	580.40
				15	227	17.97	562.43
				16	228	16.19	546.24
				18	229	51.22	495.02
				18	230	12.50	482.52
20	50						532.52
				22	231	16.49	516.03
				24	232	19.67	496.36
25	150						646.36
				28	233	101.28	545.08
				29	234	35.40	509.68
				30	235	8.21	501.47

Instructions. Show a reconciliation of the bank account in the same form as that illustrated on page 180. The bank statement does not show the check numbers, but it does show the amounts and since there are no two checks which have the same amount, it will be easy to check the two records.

Exercise 70, Transactions with the Bank

During the month of April, J. E. Gill, a retail coal dealer, made deposits in the First National Bank and issued checks on the deposits in the bank as follows:

2. Deposit	\$2,900.00	13. Check #13	\$457.74
2. Check #1	208.80	14. Check #14	48.10
2. Check #2	20.00	14. Check #15	273.42
3. Check #3	450.00	14. Deposit	341.38
4. Check #4	101.00	16. Check #16	150.00
5. Check #5	150.00	18. Check #17	256.01
6. Check #6	75.00	21. Check #18	94.75
7. Check #7	165.50	21. Deposit	791.00
7. Check #8	40.00	24. Check #19	141.32
7. Check #9	38.00	25. Check #20	103.88
7. Deposit	248.65	27. Check #21	279.77
10. Check #10	445.23	28. Check #22	38.00
11. Check #11	60.00	30. Check #23	567.43
11. Check #12	49.50	30. Deposit	815.24

Instructions. (1) Show the balance in the bank after each check was subtracted or each deposit added in the same form as Illustration 38.

(2) May 1, the bank statement received with the canceled checks showed a balance of \$1,667.57. A comparison of the canceled checks with the stubs showed that checks Nos. 9, 19, 22, and 23 had not been paid. Show the reconciliation of the bank account in the same form as illustrated on page 180.

PRACTICE SET No. 2

The transactions for this practice set are separate from the text because each transaction is represented by a business paper. The records are made from the facts given on the papers and not from a narrative of the transactions, as in Practice Set No. 1, page 109.

S. H.

CHAPTER XVI

AVOIDING, LOCATING AND CORRECTING ERRORS

The purpose of recording transactions is to provide correct information. If there is an error either in the calculations necessary to ascertain the facts recorded or in recording these facts, the information provided from the book-keeping records will be incorrect. The discussion in this chapter relates to (a) safeguards to avoid errors, (b) effective means of locating errors, and (c) methods of correcting errors.

Avoiding Errors. Incorrect records result from errors in

- (1) Mathematical calculations; and
- (2) Recording incorrect amounts or incorrect account titles.

The best means of avoiding errors in mathematical calculations is to verify all calculations before recording the transaction. The best plan for avoiding errors in recording amounts is to compare the amount recorded with that on the business paper which forms a basis for the record before filing the paper. Each verification should be indicated by a check mark (✓).

Verifying Extensions. The calculations necessary to ascertain the amount of a purchase or sale as stated on an invoice are referred to as the *extensions*. Checking the calculations on an invoice is referred to as *verifying the extensions*. An invoice should not be recorded in the purchases journal or a sales ticket should not be recorded in the sales journal until the extensions have been verified. Check marks at the left or right of the various calculations on the invoice or sales ticket will indicate this verification.

Verifying Amounts. Each entry in a journal is made from a business paper. Thus, the entry in the purchases journal is made from the invoice; in the sales journal from the sales ticket; in the cash receipts journal from the check received or the receipt stub; in the cash payments journal from the receipt received or the check stub; and in the general journal from the note, note stub or other paper. When a transaction has been recorded, the amount recorded should be checked with the amount on the business paper before the business paper is filed.

Checking the business papers should be indicated by a check mark either at the left or right of the amount on each paper. A definite position should be used so that the one filing the papers may readily see they have been recorded and checked. Checking the amounts recorded with the basis of the record should be done as soon as the entry has been made.

Checking the Posting. Errors in extensions and in recording amounts in the journals as discussed above are not discovered by the Trial Balance

so it is especially important that they be discovered by checking. Similarly, errors in posting to the wrong account will not be discovered by the Trial Balance. In addition, errors in posting wrong amounts may be difficult to locate even if a Trial Balance out of balance does show that mistakes have been made.

It is, therefore, important that the amounts entered in the ledger should be checked at the time the posting is completed. It is not customary to check all posting at a time later than the posting, unless necessary because the Trial Balance is out of balance. If each amount written in the ledger is compared with the book of original entry as soon as the posting is completed, it may not be necessary to check all the posting.

Erasures. Incorrect amounts recorded in either a book of original entry or the ledger should not be erased. When an amount is erased, there is no means of determining the reason for the change, hence erasures may lead the owner or anyone examining the books to believe that the changes were made by the bookkeeper to defraud the owner. The change should, therefore, be made in such a way that the original entry and the new entry may both be examined and the reason for the change observed.

Correcting the Amount. When an error is made that affects an amount only, it is ordinarily corrected by drawing a line through the incorrect amount and writing the correct figures above it. When the amount is recorded in the book of original entry only, that is, when the correction is made before posting, the amount recorded in the book of original entry is the only one to correct. If the error in the amount is not detected until after posting is completed, it is necessary to write the correct amount in the book of original entry and at once write it in the ledger in the same manner as in the book of original entry.

The method of correcting an amount written in a book of original entry incorrectly is shown in the cash book on page 158. The method of correcting an amount written in the ledger is illustrated in the account with A. R. Jennings on page 161.

Correcting the Account Title. When the wrong account title is stated in a book of original entry and the error is detected before posting, it may be corrected by drawing a line through the amount or amounts, placing a check mark in the folio column and recording the transaction correctly below the last entry recorded. Placing a check mark in the folio column indicates that the amount on this line is not to be posted; drawing a line through the amount or amounts is further warning not to post.

When the entry has been posted to the account as stated in the book of original entry and this is the wrong account, the usual plan is to correct through an entry in the general journal. When an error is made either in the account title, in the amount, or in posting to the wrong account in one fiscal period or month and not detected until a subsequent fiscal period or month, it is customary to make the correcting entry in the general journal.

The illustration at the right shows a check stub which contains specific information regarding the purpose of the check. The check mark at the right of the amount shows that the check has been recorded on the payments side of the cash book.

When checking the entries on the payments side of the cash book with the check stubs and receipts, the bookkeeper found that the transaction had been recorded as in the illustration below and the entry posted as stated.

No. 181

Date June 14 19

Favor of M. A. Johnson

For Repairing broken window
Miscellaneous Expense

Accounts Salary Expense

Amount of Check \$ 12.50 ✓

CASH BOOK				Payments	
19					
June	14	Salary Expense	Check No. 181	12	50

When the above entry is posted, the Salary Expense account will show \$12.50 more than was paid for salaries. The illustration below shows the entry

June 15, 19				necessary to correct this error. When this entry is posted the balance of each expense account will show the correct	
		Miscellaneous Expense	12 50		
		Salary Expense		12 50	
		To correct error in account debited June 14.			

amount. The check stub should be corrected as in the illustration above.

Errors in Posting to the Wrong Account. There is always a possibility of posting an amount from the purchases journal to a creditor other than the one from whom the purchase was made or in posting from the sales journal to a customer other than the one to whom the sale was made. Errors of this kind may be detected by the customer or creditor, but will not be detected by taking a Trial Balance. When an error in posting is detected, it is customary to draw a line through the wrong entry in the ledger and post the amount correctly.

The method of applying this process for correcting an error is illustrated in the accounts with Central Hotel and M. A. Johnson on page 161. Through error the sale made to M. A. Johnson, October 26, page 157, was posted to the account with the Central Hotel. When the bookkeeper discovered the error, he drew a line through the \$44.25 on the debit side of the account with the Central Hotel and posted the amount, \$44.25, to the account with M. A. Johnson. This method of making the correction provides in the records full information regarding the error.

If desired, an error in posting to the wrong account may be corrected by an entry in the general journal. If the error is not discovered until a subsequent fiscal period, it should be corrected by an entry in the general journal.

Exercise 71, Correcting Errors

(ORAL OR WRITTEN)

1. May 7. R. L. Baum, a retail florist, received an invoice for flowers from the J. B. Milton Co. for \$65.85. (a) In what book of original entry will this transaction be recorded? (b) What accounts will be debited and credited?
2. May 15. When the bookkeeper was auditing for payment the invoice mentioned above, he discovered that the amount should have been \$63.45. How will this error be corrected (a) if the entry has not been posted? (b) if it has been posted?
3. The following is quoted from a letter received by A. Kahn from J. L. Ray. "Inclosed find check for \$32.85 in full for your sales invoice No. 216, \$31.50. You will observe there is an error of \$1.35 in your favor in the extensions of the third item." (a) What amount was recorded in the sales journal for this sale? How will this error be corrected (b) if the entry has not been posted? (c) if it has been posted? (d) If this error was reported in a subsequent month in what journal would the correcting entry be made?
4. The bookkeeper could not prove cash June 11 because he had recorded a check received from a charge customer for \$27.95 as \$29.75. How will he correct this error in the cash book?
5. A note received from a charge customer was recorded in the general journal as a debit to the Notes Receivable account for \$127.50, the face of the note, and a credit to the account with the charge customer as \$125.70. (a) Will this error be detected by the Trial Balance? How will it be corrected (b) if the entry has not been posted? (c) if it has been posted?
6. Allowed James Brown credit for \$12.50 merchandise returned. This transaction was recorded as a debit to James Brown and a credit to Purchases. How will this error be corrected (a) if the entry has not been posted? (b) if it has been posted?
7. A charge sale recorded in the sales journal as \$87.65 was posted to the account with a charge customer as \$87.25. A check was received from the charge customer for \$87.65 and recorded correctly in the cash book. When posting from the cash book, the bookkeeper discovered the error made when posting from the sales journal. How will he correct this error?
8. The information regarding a check as stated on the stub was "For cash purchase". When recording this transaction in the cash book the bookkeeper through error recorded "Smith Bros.", the name of the firm from



whom the purchase was made, instead of "Purchases", the correct title of the account. How will this error be corrected if it is discovered (a) before posting? (b) after posting?

9. Received from L. A. Noe a 60-day 6% interest-bearing note for \$125.00 in full of account. This transaction was recorded in the general journal as a debit to the account with L. A. Noe and a credit to the Notes Receivable account. How will this error be corrected if discovered (a) before posting? (b) after posting?
10. The entry at the right appears in the general journal of J. E. Anderson. State the accounts as they would appear if this error was detected (a) before posting; (b) after posting.

June 19, 19

<i>Notes Receivable</i> <i>Sales</i> <i>R. L. Brown</i> <i>Received 30 day note and</i> <i>merchandise returned in full of acct</i>	<i>357.25</i> <i>375.75</i> <i>18</i>	<i>371.25</i>
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ERRORS DETECTED BY THE TRIAL BALANCE

The Trial Balance in Balance. When the Trial Balance balances, it indicates (a) that the addition of the Trial Balance is correct, (b) that the account balances are listed on the Trial Balance as stated in the ledger, and (c) that the sum of the debits in the ledger equals the sum of the credits.

When the Trial Balance does not balance, it indicates an error (a) in the Trial Balance, (b) in the ledger, or (c) in a book of original entry. The error in the Trial Balance may be in addition or in listing the account balances. The error in the ledger may be in addition, subtraction, or in posting. An error in a book of original entry may be in the addition of the purchases or sales journal, or in the general journal through failure to have the debit and credit amounts equal in each entry. The correctness of the cash book entries is proved through the cash proof.

The Trial Balance Out of Balance. When the Trial Balance does not balance, it is necessary to locate the error by a systematic procedure. Nothing can be gained by "looking over" the ledger with the hope of finding the error by accident. Any systematic method of procedure is satisfactory. The following is suggested:

(1) Prove the addition of the Trial Balance.

(2) Examine the account balances on the Trial Balance and be sure that all debit balances are in the left column and credit balances in the right column. Asset and expense account balances and the balance of the Drawing account are usually debits. Liability and income account balances and the balance of the Capital account are usually credits.

(3) Beginning with the last account balance on the Trial Balance, compare it with the account balance in the ledger. Indicate comparison by check marks on the ledger and Trial Balance. When this process is completed,

review the Trial Balance and ledger to ascertain if there are any account balances not checked.

When checking for a specific purpose, check marks should be placed in the same position in the ledger and in the same position on the Trial Balance or journal. This facilitates locating errors through amounts that are not checked. Thus, if the first vertical line at the left of the debit column of the Trial Balance is selected for the checking suggested and all check marks are placed on this vertical line, it will be easy to determine after the checking is completed whether any amount is not checked.

(4) Ascertain the amount of the difference, also one-half of it if the amount is divisible by "2".

(5) Compare the amount of the difference or one-half of it with the amounts recorded in the books of original entry and check the posting of similar amounts. An error of \$25.00 may result from posting a debit of \$12.50 as a credit or the failure to post a debit or credit item of \$25.00.

(6) If the amount of the difference is divisible by "9" it indicates transposed figures. Thus, 36c posted as 63c would result in an error of 27c; \$92.00 posted as \$29.00 would result in an error of \$63.00.

(7) Verify the addition and subtraction necessary to ascertain each account balance. As this is done, verify the equality of debits and credits in the personal accounts which have been ruled during the period under observation. Indicate verification of the account balances by a second check mark at the right of the account balance. When the verification is completed, review the account balances in the ledger to ascertain if there are any account balances which do not have two check marks at the right of them.

(8) Verify the addition of the purchases and sales journals, and the equality of debits and credits in the general journal. The journal entries may be verified by proving each entry or by proving that the total of the debit amounts on each page equals the total of the credit amounts on the same page.

(9) Check the posting from the sales journal, purchases journal, general journal and cash book.

Correcting Errors Detected by the Trial Balance. When an error which affects the equality of the Trial Balance is located, it should be corrected at once. If it is the result of posting, the correction should be made in the ledger by marking out the incorrect amount and posting the correct amount. The account balance should be immediately changed in the ledger and on the Trial Balance. The column of the Trial Balance in which the correction has been made should be re-added and the correct amount entered as the total. This procedure is followed, until the Trial Balance is in balance.

The Check Mark. When auditing to detect errors, a check mark should be used to indicate the audit. The check mark should be large enough to be observed but not so large that it will detract from the appearance of the ledger or books of original entry. The suggested size for check marks and their position in the ledger and books of original entry are shown in the illustration on the opposite page.

SALES JOURNAL ENTRY

May 5	12	James Watson	Avondale	10 days	63	15870 ^v
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ENTRY ON RECEIPTS SIDE OF CASH BOOK

May 15	12	James Watson	On account	—	5870 ^v
--------	----	--------------	------------	---	-------------------

GENERAL JOURNAL ENTRY

May 25, 19

2	Notes Receivable	100	— ^v	
12	James Watson			100 — ^v
	Received 10-day note in full of acct.			

James Watson Avondale

May 5	10 days	Dr	15870 ^v	15	Cr	5870 ^v
				25	10-day note	Dr 100 — ^v

Notes Receivable

May 25	10 days	Dr	100 — ^v
--------	---------	----	--------------------

Exercise 72, Locating and Correcting Errors

(ORAL OR WRITTEN)

1. The footings in the Trial Balance at the right indicate that the Trial Balance is out of balance. (a) What is the amount of the error? (b) Could the error be the result of transposed figures?

8143	79	8143	43
------	----	------	----

2. The credit balance of an account with a charge customer is \$6.85 because the account is over-paid. Through error this amount is entered in the debit column on the Trial Balance. If this is the only error and the total of the debit column of the Trial Balance is \$17,461.80, what should the total of the debit and credit columns be after the error is corrected?

3. A. L. Sage, a creditor, was overpaid \$3.25. Through error the book-keeper listed this overpayment in the right column of the Trial Balance. How much will the Trial Balance be out of balance?

136

19
43
36

4. The Trial Balance is out of balance \$42.53, the credit side being the larger. Through error the balance of the Miscellaneous Expense account, \$21.40, was entered in the credit column. (a) What effect would this error have on the amount of the error in the Trial Balance? (b) What figures when transposed might cause the error remaining after the first one is corrected?

5. The sum of the debit balances on the Trial Balance exceeded the sum of the credit balances \$26.50. The bookkeeper discovered that the error resulted from posting an amount to the wrong side of an account. (a) What was the amount? (b) How was the error corrected?

6. The account in the illustration at the left appears on the ledger of L.

A. R. BROWN

19				19			
May	7	S	127	May	17	C	24
			53 81				53 18

B. Hood. (a) Under what conditions would this error affect the Trial Balance? (b) If these

conditions exist, how much was the Trial Balance out of balance? (c) How would an error of this nature be corrected?

Exercise 73, Working Sheet and Reports

July 1. R. O. Knight invested \$2,500.00 in the retail fruit business. At the close of July, the account balances on his ledger, as a result of the transactions completed during the month, are stated in the Trial Balance at the left.

R. O. KNIGHT TRIAL BALANCE, July 31, 19

1	Cash.....	558 62	
1	Notes-Receiveable.....	251 65	
2	Arcade Hotel.....	62 50	
4	Mrs. L. C. Hunt.....	68 57	
5	J. L. Dane.....	61 19	
6	Merchandise Inventory.....	748 35	
6	Supplies.....	77 35	
6	Prepaid Insurance.....	54 —	
7	Equipment.....	925 —	
8	Excelsior Creamery.....		227 80
10	Carr Commission Co.....		161 75
11	R. O. Knight, Capital.....		2500 —
12	R. O. Knight, Drawing.....	112 50	
13	Sales.....		1975 69
14	Purchases.....	1735 45	
15	Rent Expense.....	66 66	
15	Salary Expense.....	111 50	
15	Miscellaneous Expense.....	31 90	
		4865 24	4865 24

Inventories: Merchandise, \$1,010.85; Supplies, \$55.25. The prepaid insurance is \$42.50. The estimated monthly depreciation on equipment is 1 $\frac{7}{8}$ ¢.

Instructions: (1) From the account balances on the Trial Balance, the inventories and the depreciation, prepare a

Working Sheet; the net profit should be \$249.83 and the present proprietorship, \$2,637.33.

(2) Prepare a Balance Sheet and a Profit and Loss Statement.

(3) Prepare the adjusting and closing entries.

CHAPTER XVII.

NOTES RECEIVABLE AND NOTES PAYABLE

The nature of notes receivable and notes payable and the method of recording them are explained in Chapters VI and VII. The following discussion provides a review of the preceding chapters and additional information relative to the use of notes.

A Promissory Note. ¹An unconditional ²written ³promise ⁴to pay ⁵a fixed amount of money at a stated time, signed by the person or persons agreeing to pay it, is referred to as a *promissory note* or a *note*. The one who signs the note is known as the *maker*; the one to whom the note is made payable is the *payee*. The amount stated in the note is the *face value*; the amount due at maturity is the *maturity value*.

The note illustrated below is prepared on a printed form provided for this purpose. The date is May 16, the time sixty days, the maker A. E. Reynolds, the payee W. L. Harman, the face value, \$255.68, the maturity value \$255.68. This note is made payable at the Third National Bank which indicates that A. E. Reynolds will call at the bank on July 15 and pay the face of the note, \$255.68. The number was placed on the note by the maker at the time the note was executed; a stub with a similar number containing full information about the note was retained by him.

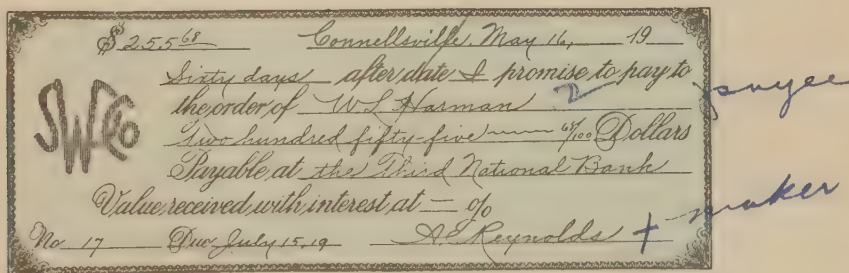


Illustration 46, A Non-interest-bearing Note

Purpose of Notes. Notes are usually issued for one of two purposes:

- (1) To secure additional time for the payment of a debt.
- (2) As evidence of a loan.

A note received from a customer or issued to a creditor is usually for the purpose of securing additional time for the payment of an account. A note issued to a bank is usually for the purpose of obtaining a loan.

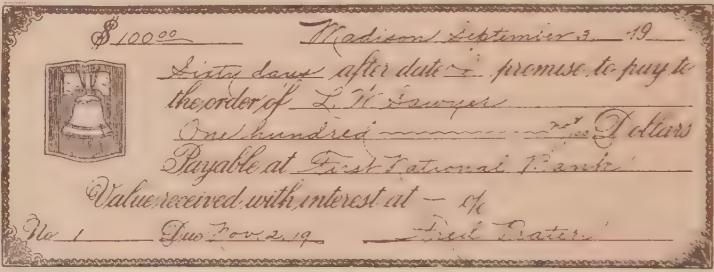
Note and Cash Received from a Charge Customer. When cash and a note are received from a charge customer for a part or all of his indebtedness,

the transaction affects the assets only. The asset cash and the asset notes receivable increase and the asset accounts receivable decreases the same amount as the sum of the two increases in assets.

The note is recorded in the general journal as a debit to the Notes Receivable account and a credit to the account with the charge customer. The cash is recorded in the cash book as a debit to the Cash account and a credit to the account with the charge customer. When the journal entry is posted, the word "Note" is written in the explanation column of the account with the charge customer to indicate the method of settlement.

September 5. L. W. Sawyer received from Fred Prater, a charge customer, a check for \$86.95 and note No. 1 for \$100.00 in settlement for balance due on account.

The note is illustrated below. The "No. 1" refers to the number of this note in the note receivable register, page 208. This transaction results in an increase in the asset notes receivable, \$100.00; an increase in the asset cash, \$86.95; and a decrease in the asset accounts receivable, \$186.95.



The entry in the general journal to record the receipt of the note is in the illustration at the right. Notes Receivable is debited to record the increase in the asset notes receivable and Fred Prater credited to record the decrease in the asset accounts receivable.

September 5, 19			
Notes Receivable.....	100		
Fred Prater.....			100
Received note No. 1 to apply on account.			

The entry in the cash book to record the receipt of cash is:

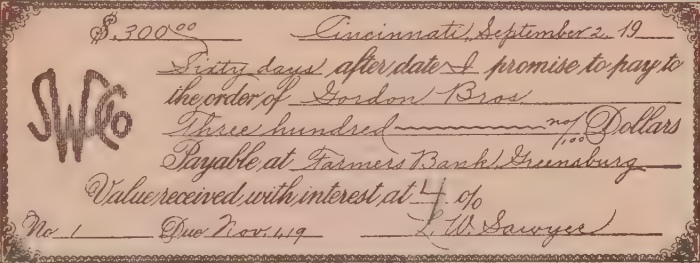
CASH			Receipts		
19 Sept.	5	Fred Prater	In full of account	86 95	

When the entries in the general journal and cash book have been posted, the account with Fred Prater will be in balance and the amount of the note will be recorded in the Notes Receivable account. Fred Prater still owes \$100.00, but it is now in the form of a written promise as indicated by the entry in the Notes Receivable account.

Note and Cash Given a Creditor. When additional time is desired by the debtor for the payment of a past due account, the creditor will usually require part cash and a note for the balance. When the extension of time is secured under the conditions mentioned in the preceding sentence, the transaction results in a decrease in the asset cash, a decrease in the liability accounts payable and an increase in the liability notes payable. The decrease in accounts payable is the sum of the decrease in cash and the increase in notes payable. The note is recorded in the general journal and the payment of cash, in the cash book.

September 2. L. W. Sawyer gave Gordon Bros., a creditor, note No. 1 for \$300.00 and check for \$127.55 in full of account, \$427.55.

The stub and the note before it was detached are illustrated below. The "No. 1" is the number in the notes payable register, page 208.

Amount \$ <u>300.00</u>	
Date <u>September 2</u> , 19__	
Time <u>60 days</u>	
In favor of <u>Gordon Bros.</u>	
Payable at <u>Farmers Bank, Greenburg</u>	
Interest <u>%</u> from	
Due <u>November 1</u> , 19__	
No. <u>1</u>	

This transaction results in a decrease in the liability accounts payable, \$427.55; a decrease in the asset cash, \$127.55; and an increase in the liability notes payable, \$300.00.

September 2, 19

Gordon Bros.	300	
Notes Payable		300
Gave note No. 1 to apply on account.		

The entry to record the note is in the illustration at the left; the information for this entry is obtained from the stub.

The entry in the cash book to record the payment of cash is:

		CASH	Payments
19 Sept.	2	Gordon Bros.	In full of account
			127 55

When the entries in the cash book and general journal have been posted, the account with Gordon Bros. will be in balance and the amount of the note will be recorded in the Notes Payable account. L. W. Sawyer still owes Gordon Bros. the amount of the note, but the indebtedness is recorded in the Notes Payable account because it is now in the form of a written agreement.

Borrowing Money from the Bank. When money is borrowed from a bank and the borrower issues his note as evidence of the loan, the transaction results in an increase in the asset cash and an increase in the liability notes payable. The borrower will be required to pay for the use of the money either at the time the loan is made or at maturity.

The borrower usually leaves the money borrowed on deposit with the bank, subject to check. The amount which the borrower receives or which is placed to his credit is usually referred to by him as the *proceeds of the loan*. When the borrower pays the interest at maturity, the amount of the proceeds is the face of the note; when he pays the interest in advance, the amount of the proceeds is usually the face of the note less the interest.

September 10. L. W. Sawyer borrowed \$1,000.00 from the First National Bank on his 90-day 6% interest-bearing note. Received credit for the proceeds, \$1,000.00.

The illustration below shows the note and stub. The record of this note in the notes payable register is on page 208. The transaction increases the asset cash and the liability notes payable the face of the note.

Amount \$ <u>1000.00</u>	
Date <u>September 10</u> , 19 <u>19</u>	
Time <u>90 days</u>	
In favor of <u>First National Bank</u>	
Payable at <u>First National Bank</u>	
Interest <u>6 %</u> from <u>Sept. 10, 19</u>	
Due <u>December 9</u> , 19 <u>19</u>	
No. <u>2</u>	

The entry in the cash book to record this transaction is:

CASH				Receipts			
19							
Sept.	10	Notes Payable	Proceeds of note No. 2	1000			

When this entry has been posted, the Notes Payable account will be credited with \$1,000.00, thus recording the liability on the ledger.

A Non-interest-bearing Note. When the note requires the maker to pay only the face at maturity it is referred to as a *non-interest-bearing note*. No reference to interest in the note always indicates that it is non-interest-bearing. If space is provided for the rate of interest on the note and the note is non-interest-bearing, the better plan is to write "no" or draw a line in the space for interest, as in the notes on pages 198 and 199. This avoids the possibility of changing the note after it is issued. The face value and maturity value of a non-interest-bearing note are always the same.

An Interest-bearing Note. When the note requires that the maker pay the face and interest at maturity, it is referred to as an *interest-bearing*

note. The rate of interest should always be stated to avoid any possible misunderstanding regarding the amount of interest. This is true even though the *legal* rate (rate fixed by law) of interest is to be collected. Thus, in the note on page 200 the statement "With interest at 6%" indicates that L. W. Sawyer, the maker, has promised to pay \$1,015.00 at the maturity of the note, \$1,000.00 the face of the note and \$15.00 interest.

When a note is received, the face value is recorded as a debit to the Notes Receivable account whether it is interest-bearing or non-interest-bearing. The method of recording notes whether interest-bearing or non-interest-bearing when received at a value other than the face value is explained in a succeeding chapter.

Exercise 74, Notes Receivable and Notes Payable

(ORAL OR WRITTEN)

1. The note illustrated at the right and cash were received September 1 in full for the past due account shown below the note. (a) On whose ledger does this accounts receivable account appear?

(b) How much is the past due balance?

(c) How much cash was received? (d) As bookkeeper for the payee, in what books of original entry would you record the cash and the note?

(e) What accounts would you debit? (f) Credit? (g) Why?

141.50
119.35
266.85
541.1

\$ 112.50		Allentown, September 1, 19__	
Thirty days after date I promise to pay to the order of <u>A. L. George & Company</u>			
One hundred twelve and ⁵ / ₁₀₀ Dollars			
Payable at _____			
Value received with interest at <u>6%</u>			
No. 35	Due Oct. 1, 19__	Walter Gibson	

WALTER GIBSON

19						19				
July	12	30 days	S27	141 50		Aug.	12	C4	50	
	23	20 days	S65	119 35			20	C6	75	
Aug.	6	60 days	S98	205 25						
				466 10						125 00
										666 10

2. "October 1. J. L. Boggs, a retail merchant, paid the account illustrated at the left with a check for \$200.00 and a 60-day note for the balance." (a)

What is the face of the note? (b) Who will be the payee?

(c) The maker? (d) As bookkeeper for Mr. Boggs, in what

books of original entry will you record the transaction? (e) What account is debited? (f) What accounts are credited?

STRICKLAND BROS.

Dalton

19	Sept.	1	J12	25 80	19	Aug.	17	P16	138 25
		20	C10	125		Sept.	25	P18	254 86

3. "August 13. J. A. Saul borrowed \$2,000.00 from the City Bank on his 60-day, 6% interest-bearing note. Received credit for \$2,000.00, the face of the note." (a) How will this transaction be recorded by Mr. Saul? (b) When will the note mature? (c) How much will J. A. Saul pay the bank at maturity?

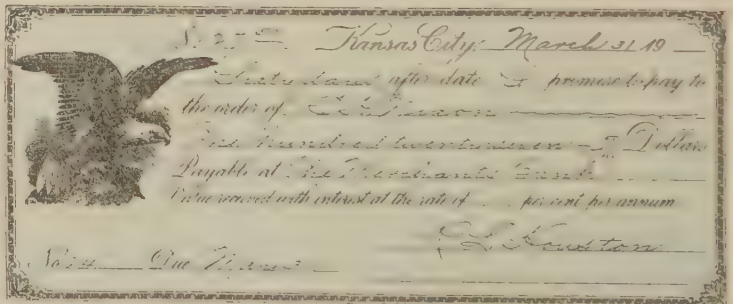
4. "May 3. R. H. Boles received from W. O. Duncan a 60-day, 6% interest-bearing note for \$125.00 and cash \$52.50 in full of account, \$177.50." (a) How will this transaction be recorded by the payee? (b) When does the note mature? (c) What amount will W. O. Duncan pay at maturity?

5. "March 12. Martin Bros. received from L. C. Aul a 60-day, 6% interest-bearing note for \$400.00 and a check for \$125.35 in full of account, \$525.35." (a) How will this transaction be recorded by the payee? What effect does it have on (b) the assets of the payee? (c) the liabilities? (d) What is the maturity date of the note? (e) How much will the payee collect at maturity?

Collecting Notes Receivable. The maker of a note promises to pay the amount stated in the note to the payee at maturity. If the payee holds the note until maturity, he should notify the maker a few days before maturity so that the maker may be prepared to pay the note. If the payee transfers the note to another before maturity, the one to whom it is transferred, usually referred to as the *holder*, should notify the maker before maturity.

The holder of a note receivable usually collects it through a bank, either the one at which he does business or the one at which the maker has made it payable. The note is left with the bank a few days before maturity so that the maker may be notified and through this notice know when and where to pay the note. The collecting bank notifies the maker before maturity of the note. When the maker pays the note, the collecting bank notifies the holder that it has been collected. If the holder is a depositor of the bank, he receives credit in his account for the amount collected; if not a depositor, he will receive a bank draft or cashier's check for the amount collected.

May 20, the payee of the note shown below, transferred the note to the Merchants Bank at which it is payable for collection. The indorsement was "Pay to the order of Merchants Bank, For collection, C. H. Nixon."



This is not a transaction, hence no entry is required. If the notes are recorded in a note register as illustrated at the conclusion of this chapter, a notation of the disposition of the note is made in the register.

The notice at the left in the illustration at the top of page 203 was mailed by the bank to the maker of the note before the maturity of the note. The notice at the right in the illustration at the top of page 203 was mailed to C. H. Nixon by the bank after the collection had been made.

MERCHANTS BANK

May 24 19__

R. L. Houston

City

Your ^(note) ~~acceptance~~ for \$127.50 will be due May 30 19__

Your early attention will oblige,

O. Garber
Cashier

NOTICE OF COLLECTION

MERCHANTS BANK

June 1 19__

C. H. Nixon

City

WE HAVE PLACED \$127.50 TO YOUR CREDIT.

THIS IS THE PROCEEDS OF YOUR note LEFT FOR

COLLECTION May 20 19__ FOR \$127.50 AND

INTEREST \$ LESS OUR COLLECTION CHARGES

\$ PRESENT THIS NOTICE WITH YOUR PASS BOOK.

O. GARBER
CASHIER

Receiving credit at the bank for \$127.50 (see notice above) is to C. H. Nixon a transaction in which the asset cash is increased and the asset notes receivable decreased the amount of the collection.

The entry to record this transaction in the cash book is:

CASH				Receipts
19	June 1	Notes Receivable	R. L. Houston note	127 50

Collection Charges on a Note. Banks usually make no charge for collecting a note for a depositor. Banks do, however, make a collection charge when a note is collected for a non-customer. The collection charge is deducted from the amount collected. This means that in the case of a non-interest-bearing note the holder would receive less than the face of the note if the collecting bank charged for collecting it.

The collection of a note when the holder receives the face of the note is an exchange of one asset for another. When the holder receives less than the face of the note as the result of a collection charge, the difference between the face value and the amount received is an expense usually referred to as *collection expense*.

The payment of collection charges for collecting a note requires a record of the expense. There are a number of methods which may be used for recording this expense but only the most common is illustrated here. In this method, the transaction is recorded in the general journal and the cash in the cash book.

In the general journal entry Cash is debited to record the increase in the asset cash, Collection Expense is debited to record the increase in expense because of collection charges, and the Notes Receivable account is credited to record the decrease in the asset notes receivable. The amount of cash collected is recorded on the receipts side of the cash book. Check marks are used to avoid double posting to Cash and Notes Receivable accounts.

Recording Collection Expense. May 9. C. H. Nixon received a bank draft and the notice in the illustration at the right because of the collection of a note, as described in the notice. The face value of this note, \$217.50, is a debit in the Notes Receivable account on his ledger. This transaction results in a decrease in the asset notes receivable \$217.50, an increase in the asset cash \$216.85, and an increase in the expense 65c because of collection charges.

ATLAS NATIONAL BANK

Cleveland, May 8 19

PLEASE NOTE THAT COLLECTIONS HAVE BEEN MADE AS FOLLOWS:

DATE	NAME AND ADDRESS	AMOUNT	CREDIT
May 8	J. M. May, Cleveland	217.50	216.85

Chicago draft for \$216.85 inclosed.

To C. H. Nixon,
Chicago

ALL ITEMS CREDITED SUBJECT TO FINAL PAYMENTS

The general journal entry at the left and the cash book entry below

May 9, 19			
✓	Cash.....	216 85	
	Collection Expense.....	65	
	Notes Receivable.....		217 50
	Proceeds of J. M. May note.		

record the transaction. The check marks in the folio columns are to avoid double posting to the Cash and Notes Re-

ceivable accounts. When the entries not checked have been posted, the Notes Receivable account will be credited for the face of the note and the Collection Expense account debited for the collection charges.

		CASH	Receipts
May	9 ✓	Notes Receivable	Proceeds of J. M. May note
			216 85

The Collection Expense Account is a record of the increase in expense because of collection charges paid collecting agents.

This account is *debited* for the increases in collection expense.

The *debit* balance of this account shows the total collection expense and is closed into the Profit and Loss Summary account.

When the bank charges for collecting out-of-town checks, the deduction made from the deposit because of these collection charges is usually regarded as a collection expense and recorded in the Collection Expense account.

Renewal of a Note Receivable. When the maker of a note receivable desires an extension of time for a part or all of the note, it is customary to require a new note for the amount on which the extension of time is granted. When cash is collected for part of the note and a new note received for the balance, the transaction results in an increase in the asset cash for the amount of money received, an increase in the asset notes receivable for the face of the new note, and a decrease in the asset notes receivable for the face of the old note. When the new note received is for the same amount as the old note,

the nature and amount of the assets do not change but the renewal of the note should be recorded as a debit and credit to the Notes Receivable account.

November 12. C. H. Nixon received from Walter Meyers \$50.00 in cash and note No. 27 for \$122.50 in settlement for note No. 14, face value \$172.50.

This transaction affects only the assets. The numbers refer to the note register numbers. The general journal entry at the right and the cash book entry below record the transaction. The debits record the increases in assets and the credit, the decrease in assets. Check marks are used to avoid double posting.

November 12, 19				
✓	Cash	50	—	
	Notes Receivable.....	122	50	
	Notes Receivable.....			172 50
	Renewal of note No. 14			

CASH				Receipts	
19	Nov.	12	✓	Notes Receivable	Part payment, Note No. 14
					50 —

When these entries are posted, the face of the old note recorded in the Notes Receivable account will be canceled through the credit entry and the face of the new note will be recorded through the debit entry.

November 26. C. H. Nixon received from E. L. Hammer note No. 28 for \$195.75 to renew note No. 16 for \$195.75.

This transaction does not change any account balance but the new note should be recorded because of the extension of time. The entry in the il-

November 26, 19					lustration at the left shows the method of recording the new note and canceling the old note.
	Notes Receivable.....	195	75		
	Notes Receivable.....			195 75	
	Renewed note No. 16				

Renewal of a Note Payable. This refers to an extension of time for the payment of a part or all of a note payable. When a part of a note payable is paid at maturity and the balance renewed with a new note, the transaction results in a decrease in the asset cash for the amount of cash paid, a decrease in the liability notes payable for the face of the old note, and an increase in the liability notes payable for the face of the new note. When an extension of time is for the face of a note payable, the transaction does not change any account balance but should be recorded because of the extension of time.

December 1. C. H. Nixon gave the City National Bank check for \$200.00 and note No. 22 for \$300.00 in settlement for note No. 15, \$500.00.

This transaction affects the assets and liabilities. The numbers refer to entries in the note register. The general journal entry at the right and the cash book entry below record the transaction. Check marks are used to avoid double posting to the Cash and Notes Payable accounts.

December 1. 19		PAGE 11
✓	Notes Payable.....	500 —
	Cash	200 —
	Notes Payable.....	300 —
	Gave check for \$200.00 and note No. 22 in settlement for note No. 15.	

CASH				Payments
19 Dec.	1	✓	Notes Payable	Note No. 15; see journal, page 11
				200 —

When these entries are posted, the old note will be canceled through the debit entry and the face of the new note will be recorded through the credit entry.

December 15. C. H. Nixon renewed note No. 16 for \$600.00 with note No. 23 for the same amount.

This transaction does not change any account balance but the new note should be recorded because of the extension of time. The entry in the illustration at the left shows the method of recording the new note and canceling the old one. The numbers stated in the transaction and in the explanation refer to the numbers in the notes payable register.

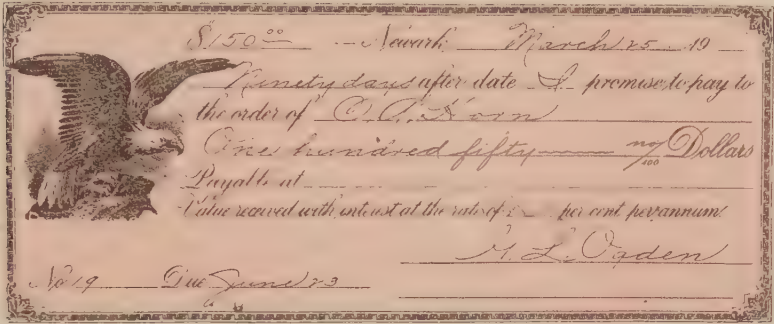
December 15, 19	
Notes Payable.....	600 —
Notes Payable.....	600 —
Renewed note No. 16 with note No. 23.	

The method of recording interest when notes are collected, paid, or renewed is not included in the foregoing discussion of notes. This subject is explained in the next chapter.

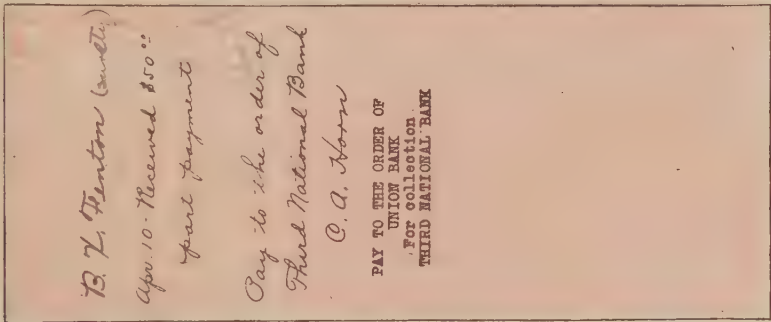
Indorsement of Notes. A note may be indorsed (a) to transfer the title, (b) as security, (c) for part payment, and (d) for collection. Indorsements are written on the back in the same manner as the indorsements on checks. An indorsement for security may be written on the face under the name of the maker provided the surety writes "surety" after his name.

An indorsement to transfer the title may be made in blank or in full. An indorsement for security is usually made in blank. An indorsement for part payment contains the date and amount of the payment; no name should appear in connection with this indorsement because it might be interpreted as surety. An indorsement for collection includes "for collection" or "for collection and credit", the name of the collecting agent and the one for whom

the note is collected. Each indorser for transfer of title on a note is responsible for payment unless *without recourse* appears in connection with his indorsement. The illustration below shows the face of a note on the date of issue.



The illustration below shows the back of the above note when it was returned to the maker. The first indorsement is for surety; the second, receipt for part payment; the third, for transfer; and the fourth, for collection.



A Dishonored Note Receivable. When the maker of a note refuses to pay or renew it at maturity, the note is said to be *dishonored*. When a note is dishonored, the maker is not relieved from the responsibility of paying it. To the holder, a dishonored note is an asset and will remain as an asset until it is collected or charged off as a *bad debt*.

The asset value of the dishonored note may be allowed to remain in the Notes Receivable account, it may be transferred to an account with dishonored notes or it may be transferred to the account with the charge customer. The only purpose in transferring it would be to have the Notes Receivable account show only the asset value of notes not yet due.

The illustration below shows the entry required to transfer the amount of a dishonored note from the Notes Receivable account to the account with the charge customer

December 4, 19			
L. C. Spence		350 —	
Notes Receivable			350 —
Dishonored note due today.			

from whom it was received. The debit to the account with the charge customer records the increase in the asset accounts receivable, and the credit to the Notes Receivable account, the decrease in the asset notes receivable.

When this entry is posted, "Dishonored note" will be written in the explanation of the account with L. C. Spence, and "L. C. Spence" in the explanation of the Notes Receivable account. The dishonored note is retained by the holder as evidence of the debit to the account with the charge customer.

When there are indorsers on a dishonored note, it should be protested in the same manner as for a dishonored check as explained on page 185. The method of recording a dishonored note, which has been protested in order to hold the endorsers, and recording the protest fee is explained and illustrated in a subsequent chapter.

Note Register. The Notes Receivable account contains a record of all the notes receivable and the Notes Payable account, the notes payable. When the transactions with notes receivable and notes payable are numerous, it is customary to maintain a supplementary record of these notes in registers for notes receivable and for notes payable. The title of each register indicates the nature of the notes recorded in it.

The ruling in each register provides full information regarding each note on one horizontal line. This information includes not only that pro-

NOTES RECEIVABLE REGISTER

DATE RECEIVED	OUR No.	MAKER	PAYEE AND ENDORSER	WHERE PAYABLE	PURPOSE
Sept. 5	1	Fred Brater	L. H. Sawyer	First Nat. Bank, Boston	On account
10	2	W. L. Cord	W. H. Moore	First Nat. Bank, City	Sale of Aug. 10
18	3	J. A. Martin	L. H. Sawyer	Amos Bank, Canton	Sale of Aug. 15
25	4	B. A. Kerr	A. C. Brooks	Fairmont Bank, Hamilton	On account
30	5	D. C. Allen	L. H. Sawyer	Merchants Bank, City	In full of account

Illustration 47, Notes Receivable Register (Left Page)

NOTES PAYABLE REGISTER

DATE ISSUED	OUR No.	PAYEE	ADDRESS	WHERE PAYABLE	PURPOSE
Sept. 2	1	Lordon Bros.	Greensburg	Commerce Bank, Greensburg	Purchase of Aug. 1
10	2	First Nat. Bank	City	First Nat. Bank, City	Loan
15	3	L. B. Love & Co.	Canton	Merchants Bank, Canton	In full of account
23	4	T. M. Olson	Colington	Chingston Bank, Canton	Purchase of July 15
30	5	First Nat. Bank	City	First Nat. Bank, City	Loan

Illustration 48, Notes Payable Register (Left Page)

vided at the time the note is received or issued but all facts regarding the note receivable and note payable until collected or paid.

The Notes Receivable Register in the illustration contains a record of the five notes received by L. W. Sawyer during the month of September. The first entry is for the note illustrated on page 198. The other entries were made from notes similar to this. Full information regarding each note is recorded on one horizontal line. All of the vertical columns are filled out at the time the note is received except the two at the extreme right; the entries in these columns are made at maturity or at the time the note is sent to the collecting bank for collection.

Each note is recorded in the note register at the time it is received and the number of the note register used in describing the note when recording in the book of original entry and when collecting. The note register number may be entered on the note if desired.

The Notes Payable Register at the bottom of page 208 and this page contains a record of the five notes issued by L. W. Sawyer during the month of September. The first and second entries are the notes illustrated on pages 199 and 200. When the notes payable register is used, it is not necessary to provide information regarding the note on the stub as in the illustrations.

NOTES RECEIVABLE REGISTER

DATE OF PAPER			TIME	MATURITY	FACE VALUE	RATE OF INT.	MATURITY VALUE	DATE COLLECTED	REMARKS
YEAR	MONTH	DAY							
19	Sept.	3	60 days	Nov. 2	100	—	100	—	
19	Sept.	10	30 days	Oct. 10	251	50	252	76	
19	Sept.	16	15 days	Sept. 26	216	45	216	40	Sent to Union Bank for collection Sept. 25
19	Sept.	21	3 mos.	Dec. 21	335	80	340	84	
19	Sept.	30	30 days	Oct. 30	175	65	176	53	

Illustration 47, Notes Receivable Register (Right Page)

NOTES PAYABLE REGISTER

DATE OF PAPER			TIME	MATURITY	FACE VALUE	RATE OF INT.	MATURITY VALUE	DATE PAID	REMARKS
YEAR	MONTH	DAY							
19	Sept.	2	60 days	Nov. 1	300	—	300	—	
19	Sept.	10	90 days	Dec. 9	1000	—	1015	—	
19	Sept.	15	10 days	Sept. 25	165	80	165	80	Check No. 47
19	Sept.	23	60 days	Nov. 22	426	95	431	22	
19	Sept.	30	90 days	Dec. 29	1000	—	1000	—	Int. 6% paid in advance

Illustration 48, Notes Payable Register (Right Page)

Exercise 75, Notes Receivable and Payable

(ORAL OR WRITTEN)

You may assume that each of the following transactions were completed in the operation of your own business.

1. May 14. Gave Paul Green check for \$137.50 and note No. 60, face value \$200.00, in full of account, \$337.50. (a) What effect does this transaction have on your liabilities? (b) State the entries to record the note and the cash paid. (c) Would a stub be necessary on the note if a notes payable register is maintained? (d) Why?

2. May 23. Received from R. L. Gold check for \$37.75 and note No. 42, face value \$50.00, in settlement of account. (a) What effect does this transaction have on your assets? (b) State the entries to record the note and the cash.

3. May 16. Received credit at the bank for \$1,000.00, proceeds of note No. 45, face value \$1,000.00, interest rate 6%. (a) What effect does this transaction have on your assets, liabilities and expense? (b) State the entry to record this transaction.

4. "We have credited your account with \$250.00, collection of your note No. 37, face value \$250.00." This quotation is from a notice received from the bank. (a) What effect does this transaction have on your assets? (b) How is the transaction recorded?

5. "We have credited your account with \$495.00, proceeds of collecting your note No. 75, face value \$496.00." (a) What effect does this transaction have on your assets and expense? (b) How is the note recorded? (c) How is the cash received recorded?

6. "Received note No. 75, face value \$200.00, to renew note No. 52, face value, same amount." (a) How does this transaction affect your assets? (b) How is it recorded?

7. Received from James Sloan check for \$50.00 and note No. 32, face value \$100.00, in settlement for note No. 18, face value, \$150.00. (a) What effect does this transaction have on the assets? (b) How is it recorded?

Exercise 76, Recording Notes Receivable and Payable

Record each of the following transactions in the cash book or cash book and general journal as required:

1. May 7. Received from O. L. Taylor note No. 27, face value \$87.50, in full of account.

2. October 5. Received cash, \$125.00, from J. L. Jordan in full for note No. 18, due today.

3. November 10. Received credit at the First National Bank for \$200.00, face of our interest-bearing note No. 22.

4. May 4. Gave C. W. Powers a check for \$50.00 and note No. 31, face value \$250.00, in settlement for note No. 19.

5. June 16. Received from James Dailey check for \$25.00 and note No. 29, face value \$75.00, in settlement for note No. 20.

6. October 21. Received from the Traders Bank a cashier's check for \$199.40 for note No. 76, face value \$200.00, left with this bank for collection.

7. March 11. Gave L. C. Hauck a check for \$116.50 and note No. 42, face value \$100.00, for note No. 27, face value \$216.50.

8. February 17. Received from B. A. Davy check for \$16.50 and note No. 44, face value \$83.50, in settlement for note No. 28, face value \$100.00.

9. March 3. Gave the City National Bank a check for \$300.00 in payment for note No. 52.

10. September 25. Charged D. A. Long with \$125.50, face of note No. 63, dishonored by the maker

Exercise 77, Working Sheet and Reports

The Trial Balance in the illustration at the right was prepared from the ledger of J. L. Bronson at the close of the fiscal year ending June 30. The inventories are as follows: **merchandise**, \$11,594.55; supplies, \$125.05; prepaid insurance, \$264.46. The equipment is depreciated 5%. From the account balances and the facts stated regarding the inventories and depreciation prepare (a) a Working Sheet, (b) Balance Sheet, (c) Profit and Loss

J. L. BRONSON
TRIAL BALANCE, June 30, 19

1	Cash.....	11,333 65		
2	Notes Receivable.....	1,696 71		
3	Accounts Receivable.....	7,562 90		
4	Merchandise Inventory.....	2,346 95		
5	Office Supplies.....	630 40		
5	Prepaid Insurance.....	902 30		
6	Equipment.....	970 —		
6	Depreciation Reserve.....		97 —	
7	Notes Payable.....		8,000 —	
8	Accounts Payable.....		8,562 98	
9	J. L. Bronson, Capital.....		12,500 —	
9	J. L. Bronson, Drawing.....	600 —		
10	Sales.....		32,265 33	
11	Purchases.....	29,431 65		
12	Rent Expense.....	2,200 —		
12	Salary Expense.....	3,000 —		
13	Miscellaneous Expense.....	750 75		
		61,425 31	61,425 31	

Statement, and (d) adjusting and closing entries. The net profit should be \$4,938.84 and the present capital \$16,838.84.

537.16
29.26
507.90

CHAPTER XVIII

INTEREST EXPENSE AND INTEREST INCOME

Interest is a service for which money is paid or collected for the use of money. The discussion in this chapter relates to interest as an expense and interest as an income.

Interest. Businesses frequently find it necessary to borrow money to finance their operations. They are required to pay for the use of this money the same as they are required to pay rent for the use of a building. The amount of the charge is expressed as a per cent of the amount borrowed and is known as *interest*. Interest at six per cent means that a charge of six cents is made for each dollar borrowed for one year. The payment of money by the business for interest causes a decrease in proprietorship, usually referred to as *interest expense*. The receipt of money for interest causes an increase in proprietorship, usually referred to as *interest income*.

Interest on Notes Payable. When a note payable is issued and the maker agrees to pay interest for the use of the money, the interest may be paid in advance, that is, on the date of the note, or it may be paid at maturity. When the maker pays interest in advance, he issues a non-interest-bearing note; when he is to pay interest at maturity, he issues an interest-bearing note.

At maturity the maker of an interest-bearing note will be required to pay more than the face of the note because of the promise to pay interest. The payment of an interest-bearing note, results in a decrease in the asset cash for the amount of cash paid, a decrease in the liability notes payable for the face of the note, and a decrease in proprietorship (increase in expense) for the difference between the cash paid and the face of the note. This effect is recorded as a debit to the Notes Payable account, a debit to the Interest Expense account, and a credit to the Cash account.

December 1. D. C. Barnes issued a check for \$2,525.00 in payment for note No. 37, face \$2,500.00, and interest \$25.00, due today.

This transaction decreases the asset cash \$2,525.00, decreases the liability notes payable \$2,500.00, and increases the expense \$25.00. The entry to record this transaction in the cash book is:

CASH				Payments	
19					
Dec.	1	Notes Payable	Note No. 37	2500	—
	1	214 Interest Expense	Interest on note No. 37	25	—

When these two entries are posted, the Notes Payable account will be in balance and the Interest Expense account will show a debit balance of \$25.00. The posting to the Interest Expense account is shown on page 214.

A Bank Loan. When a non-interest-bearing note is issued to a bank as evidence of a loan, the borrower either pays the interest with cash and receives cash or credit in his account for the face of the note, or the interest is deducted through his receiving cash or credit in his account for the face of the note less the interest. In either case the final effect of the transaction is an increase in the asset cash, an increase in the liability notes payable, and an increase in the expense for the amount of the interest paid or deducted

December 5. D. C. Barnes received credit at the bank for \$1,776.00, the proceeds of note No. 38, face \$1,800.00, discount \$24.00.

This transaction increases the assets \$1,776.00, increases the expense \$24.00, and increases the liabilities \$1,800.00.

The general journal entry at the right and the cash book entry below record the effect on assets, liabilities and expense. Check marks are used to avoid double posting. The posting to the Interest Expense account is on page 214.

December 5, 19		PAGE 213	
✓	Cash.....	1776	—
214	Interest Expense.....	24	—
	Notes Payable.....		1800 —
	Gave bank 60-day non-interest-bearing note and received credit for proceeds.		

CASH				Receipts	
19	Dec.	5	✓	Notes Payable	Proceeds of loan; J 213
					1776 —

A transaction in which a person borrows money from a bank on his own note is sometimes referred to as *discounting a note payable*. This term is used to distinguish the loan from the discounting of a note receivable explained in a subsequent chapter.

Interest on Accounts Payable. Some firms collect interest on past due accounts while others require interest only on notes. When the owner of a business is required to pay interest on past due accounts, the interest paid will be an expense the same as that paid on notes. The asset cash decreases the amount of cash paid, the liability accounts payable decreases the amount of the account, and the interest expense increases the amount of the interest which is the difference between the cash and the account balance

December 10. D. C. Barnes, gave W. J. Ferguson, a creditor, a check for \$217.94 in payment for balance due him, \$216.55, and interest, \$1.39.

This transaction decreases the liabilities \$216.55, increases the expenses \$1.39, and decreases the assets \$217.94.

The entry to record this transaction in the cash book is:

CASH				Payments	
19					
Dec.	10	W. J. Ferguson	In full of account	216	55
	10 214	Interest Expense	Interest on balance past due	1	39

Interest Included in a Note. When a note is given a creditor in payment for a past due account balance and interest, the transaction results in an increase in the liability notes payable for the face of the note, a decrease in the liability accounts payable for the balance of the account, and an increase in the interest expense for the interest which is the difference between the account and the face of the note.

December 11. D. C. Barnes gave U. L. Duggan note No. 39, face \$316.65, in settlement of account, \$314.48, and interest on the account, \$2.17.

This transaction affects the liabilities and expense. The entry in the general journal to record this effect is in the illustration at the right. The debit to the Interest Expense account records the increase in expense because of issuing a note for a greater amount than the account.

December 11, 19					
		U. L. Duggan.....	314	48	
214		Interest Expense.....	2	17	
		Notes Payable.....			316 65
		Gave note No. 39, face			
		\$316.65 in settlement of ac-			
		count, \$314.48, and interest,			
		\$2.17.			

The illustration at the left shows the Interest Expense account resulting from posting the interest expense recorded in the books of original entry on pages 212, 213, and 214. The first and third entries record an increase in interest expense because the assets decrease more than the liabilities decrease. The second entry records an increase in

INTEREST EXPENSE			
19			
Dec.	1	C 212	25 —
	5	J 213	24 —
	10	C 214	1 39
	11	J 214	2 17

interest expense because the liabilities increase more than the assets increase. The fourth entry records an increase because the liabilities increase more than the liabilities decrease. In other words, the Interest Expense account is debited for all increases in interest expense.



Exercise 78, Interest Expense
(ORAL OR WRITTEN)

1. Issued check No. 107 for \$252.50 in payment for note No. 86, face \$250.00. What effect does this transaction have on (a) the assets? (b) the liabilities? (c) the expense? (d) How is this transaction recorded?

2. Gave Ames Bros. check for \$201.50 in payment of account, \$199.50, and interest on past due balance, \$2.00. What effect does this transaction have on (a) the assets? (b) the liabilities? (c) the expense? (d) How is it recorded in the cash book?

3. Gave the bank note No. 47, face \$500.00, and a check for \$5.00 to renew note No. 35 and to pay the interest on it. (a) What effect does this transaction have on the assets, liabilities and expense? (b) How is it recorded?

4. Gave James Mann check for \$204.50 and note No. 62 for \$200.00 in settlement of account, \$401.25, and interest on past due account and note to maturity, \$3.25. What effect does this transaction have on (a) the assets? (b) the liabilities? (c) the expense? (d) How is it recorded?

Exercise 79, Notes Payable and Interest Expense

Record the following transactions completed by A. L. Hoff in the general journal, cash book and notes payable register.

1. July 7. Gave the Union Bank a 90-day non-interest-bearing note for \$2,000.00. Issued check for \$40.00 in payment of the interest at 8% and received credit for the face of the note. Record in the register as note No. 40.

2. July 26. Gave A. Kahn a 60-day non-interest-bearing note for \$350.00, payable at Merchants Bank, and a check for \$62.50 in payment for the balance of the account, \$407.83, and interest on the note at 8%, \$4.67.

3. August 3. Gave D. L. Young a check for \$105.25 and a 30-day 6% interest-bearing note, face \$200.00, payable at City National Bank, in full of account, \$303.57, and interest on account, \$1.68.

4. September 1. Gave J. L. Blue a check for \$66.97 and a 90-day 6% interest-bearing note for \$350.00, payable at Merchants Bank, in full of account, \$416.97.

5. September 2. Gave D. L. Young a check for \$201.00 to pay note No. 42 due today and interest, \$1.00.

6. October 5. Gave Union Bank a check for \$1,000.00 and a 60-day 6% interest-bearing note for \$1,000.00 in payment for note No. 40 issued July 7.

Exercise 80, Interest on Notes and Accounts

Record the following transactions in the general journal and cash book.

1. June 28. Gave Carroll Bros. a check for \$56.75, a 30-day non-interest-bearing note for \$200.00, a 60-day non-interest bearing note for \$150.00, and a 90-day non-interest-bearing note for \$100.00, for balance due on account, \$501.42, and interest on the notes, \$5.33. Record the face of each note separately. Why?

2. August 4. Gave the Third National Bank a check for \$350.25 and a 90-day non-interest-bearing note for \$1,200.00, in payment for a 90-day 7% interest-bearing note for \$1,500.00 and interest \$26.25, due today, and interest at 8% on the new note.

3. July 6. Gave Simms Bros. a 60-day 6% interest-bearing note for \$256.68 in settlement for a past due account of \$255.40 and interest for 30 days at 6%, \$1.28.

4. September 4. Gave a check to the Third National Bank for \$259.25 in payment for note issued July 6, face \$256.68, and interest \$2.57.

5. June 12. Gave O. C. Upton check for \$771.25 in full of account, \$762.50, and interest on account, \$8.75.

INTEREST INCOME

Interest on Notes Receivable. Interest is usually collected by a business at the maturity of an interest-bearing note receivable. When cash is received for an interest-bearing note receivable, the amount of cash received is more than the face of the note because of the interest. The collection of an interest bearing note affects the assets and income; the income (proprietorship) increases the same amount as the assets increase which is the difference between the face of the note and the cash collected. The increase in income is referred to as *interest income*.

April 19. J. H. Baron received a check for \$505.00 for note No. 44, face \$500.00 and interest, \$5.00.

This transaction increases the asset cash \$505.00, decreases the asset notes receivable \$500.00, and increases the proprietorship \$5.00. The entry to record this transaction in the cash book is:

CASH				Receipts	
19					
April	19		Notes Receivable	60-day note, due today	500 —
	19	218	Interest Income	Interest on above note	5 —

Interest on Daily Bank Balance. Some banks allow interest on the daily bank balance when the depositor maintains an average daily balance above a certain amount. When interest is allowed, the depositor will receive monthly notice of the amount. A notice of the amount of credit given for interest indicates an increase in the asset cash for the amount of the interest and a corresponding increase in proprietorship. This effect is recorded as a debit to the Cash account and a credit to the Interest Income account. The amount of the credit is added to the bank balance shown on the check stub.

April 25. J. H. Baron received notice from the bank that his account had been credited with \$25.50 interest on his daily bank balance.

This transaction increases the proprietorship (interest income) and the asset cash each \$25.50. The entry to record this transaction in the cash book is shown at the top of page 217.

CASH BOOK				Receipts	
19					
April	25	218	Interest Income	On daily bank balance	25 50

Interest on Accounts Receivable. Some firms collect interest from charge customers on past due accounts while others collect interest only on notes. Cash received from a charge customer for the amount he owes and interest results in an increase in the asset cash, an increase in the proprietorship (income) through the interest, and a decrease in the asset accounts receivable.

April 30. J. H. Baron received a check from A. C. Cole for \$431.65 for balance due on account, \$429.50, and 6% interest for the 30 days past due, \$2.15.

This transaction results in an increase in the asset cash, a decrease in the asset accounts receivable, and an increase in income (proprietorship). The entry to record the transaction in the cash book is:

CASH				Receipts	
19					
April	30		A. C. Cole	In full of account	429 50
	30	218	Interest Income	Interest on past due account	2 15

Interest Included in a Note. When a note is received from a charge customer for a past due balance and interest, the transaction results in an increase in the asset notes receivable for the face of the note, an increase in proprietorship for the interest, and a decrease in the asset accounts receivable. This effect is recorded by a compound journal entry in which Notes Receivable is debited for the face of the note, Interest Income credited for the amount of the interest, and the customer credited for the balance of his account.

April 30. J. H. Baron received from Marion Dell, a charge customer, note No. 26, face \$209.48, in settlement for a past due account, \$207.63, and interest, \$1.85.

This transaction increases the asset notes receivable \$209.48, decreases the asset accounts receivable \$207.63 and increases the proprietorship (income) \$1.85. The entry to record this transaction is in the illustration at the right. The posting to the Interest Income account is on page 218.

April 30, 19			
	Notes Receivable.....	209 48	
218	Interest Income.....		1 85
	Marion Dell.....		207 63
	Received note No. 26, face, \$209.48, in full of account, \$207.63, and interest, \$1.85.		

The Interest Income account in the illustration at the left shows the result of posting the interest income recorded in the four transactions illustrated. Each entry on the credit side of the Interest Income account records an increase in income because of an increase in assets. In the first three transactions, cash was the asset increased; in the fourth transaction, notes receivable was the asset increased.

INTEREST INCOME

			19			
			April	19	C 216	5 —
				25	C 216	25 50
				30	C 217	2 15
				30	J 217	1 85
						34 50

Exercise 81, Interest Income

(ORAL OR WRITTEN)

1. Received check for \$406.00 for note No. 37, face \$400.00, and interest \$6.00. What effect does this transaction have on (a) the assets? (b) the income? (c) How is it recorded?
2. Received check from James Slater for \$201.25 in full of account, \$199.75, and interest, \$1.50. What effect does this transaction have on (a) the assets? (b) the income? (c) How is it recorded?
3. Received notice from the bank that our account had been credited with \$3.75, interest on daily deposits. (a) What effect does this transaction have on the assets and income? (b) How is it recorded?
4. Received from W. H. Mills a check for \$252.50 and note No. 77, face \$250.00, in settlement for note No. 63, face \$500.00 and interest, \$2.50. What effect does this transaction have on the assets and income?
5. Received from James Fish, a charge customer, note No. 25, face \$217.65, for account \$215.20, and interest \$2.45. (a) What effect does this transaction have on the assets and income? (b) How is it recorded?

Exercise 82, Notes Receivable and Interest Income

Record the following transactions completed by Walter Evans in the general journal, cash book, and notes receivable register.

1. May 7. Received from Nathan Marks a 60-day 6% interest-bearing note, face \$507.50, payable at Union Bank, in full of account, \$500.00, and interest on the account for 90 days, \$7.50. Record in the register as No. 30.
2. May 10. Received from M. L. Trapp a 30-day 6% interest-bearing note, face \$184.73, payable at Farmers Bank, Uniontown, for a past due account, \$182.90 and interest on the account, \$1.83.
3. May 28. Received from L. A. Fowler a 60-day, 6% note, payable at City Bank, for \$75.00 and a check for \$25.36 in full of account, \$99.65, and interest, 71c.
4. June 1. Sent note No. 31 to Farmers Bank, Uniontown, for collection.
5. June 10. Received from O. A. Locke a 30-day 6% interest-bearing note for \$271.55, payable at Union Bank, for account, \$269.80, and interest on past due account, \$1.75.

6. June 12. Received cashier's check for \$185.15 for note No. 31 and interest, 92c, less collection charges, 50c.

7. July 6. Received check from Nathan Marks for \$312.58 and a 60-day 6% interest-bearing note for \$200.00 for note No. 30, face \$507.50, and interest, \$5.08.

Exercise 83, Accounts Receivable and Interest Income

Record in the general journal, cash book or both, as required, each of the following transactions.

(1) May 4. Received from I. H. Cobbe check for \$1,212.00 in full of account, \$1,200.00, and interest at 6% for 60 days, \$12.00.

(2) June 4. Received notice from the City National Bank that our account has been credited with \$39.65, interest on daily bank balance.

(3) April 15. Received from B. L. Stewart, a charge customer, note No. 67, face \$217.50, in full of account, \$215.50, and interest on the account, \$2.00.

(4) March 12. Received from W. D. Wales, a charge customer, note No. 48 for \$500.00 and a check for \$214.04 in full of past due account, \$710.35, and interest to date, \$3.69.

(5) May 11. Received from W. D. Wales check for \$255.00 and a 60-day 6% interest-bearing note for \$250.00 for note No. 48.

INTEREST CALCULATIONS

Method of Ascertaining the Interest. Interest calculations require knowledge of the following: (a) the principal on which the interest is to be paid or collected, (b) the time and (c) the rate. The principal is stated in the note or account. The rate is the agreed or legal rate. The interest to be paid or collected is the principal multiplied by the rate expressed as a decimal fraction, if the time is one year; if the time is more or less than a year, the interest is proportionately more or less.

The Time between two dates includes the number of days beginning with the next after the first date and including the last day of the period. Thus, the method of ascertaining the time between May 11 and July 16 would be as in the illustration at the right. The date subtracted from the number of days in the month gives the remaining number of days in that month. The number of days in each succeeding month and the number of days in the ending month added to the number of days remaining in the beginning month is the number of days for which interest is computed.

May 31 days
May 11 date
<hr/> 20 days
June 30 days
July 16 days
<hr/> 66 days

Sixty-day, Six Per Cent Method. For convenience when making interest calculations, it is customary in business to regard a year as 360 days. Thus, if the interest rate is 6%, this means 6/100 of the principal for 360 days. If the time is only 180 days, the interest would be one-half the interest for a year; if 90 days, one-fourth; if 60 days, one-sixth.

184.73
3.42
5

The interest on \$1,000.00 for one year at 6% is 6 100 of \$1,000.00 or \$60.00. The interest on \$1,000.00 for 60 days at 6% is 1 6 of the interest for one year or \$10.00. The interest on \$1,000.00 for 6 days is 1 10 of the interest for 60 days or \$1.00. Thus, the interest on \$1,000.00 for one year at 6% is \$60.00, for 60 days, \$10.00, and for 6 days, \$1.00.

The "6% 60 day" method is based on the fact that the interest on any amount for 60 days at 6% is one hundredth of the amount and the interest for six days is one thousandth of the amount. Thus, the interest on \$1,650.00 for 60 days is \$16.50 and for 6 days \$1.65. The illustration at the left shows the method of ascertaining the interest on \$326.48 for 48 days at 6%. The interest for 6 days is \$0.32648 and 6 is contained into 48, 8 times, hence the interest for 48 days is 8 times the interest for 6 days.

The interest on \$326.48 for 72 days at 6% and at 8% is ascertained as in the illustration at the right. The interest at 8% is one-third more than at 6%.

Interest on \$326.48 for 60 days =	\$3.2648
Interest on \$326.48 for 6 days =	.32648
Interest on \$326.48 for 6 days =	.32648
Interest on \$326.48 for 72 days =	\$3.91776
\$3.91776 ÷ 3	= 1.30592
Interest at 8% for 72 days =	\$5.22368

$\frac{1}{2} \times \frac{1}{2}$

SUMMARY $\frac{1}{2} \times \frac{1}{4}$

The Interest Expense Account is a record of the increase in the expense because of interest paid or accrued. This account is *debited* for increases in interest expense.

The *debit* balance of the Interest Expense account is an expense and is closed into the Profit and Loss Summary account.

The Interest Income Account is a record of the increase in income because of interest collected or accrued. This account is *credited* for increases in interest income.

The *credit* balance of the Interest Income account is an income and is closed into the Profit and Loss Summary account.

Interest Calculations. The interest on any amount for 60 days at 6% is 1/100 of the amount, and for 6 days, 1 1000. When the time is more than 60 days, the interest for 60 days is used as a basis and for less than 60 days, the interest for 6 days. When the interest rate is more or less than 6%, the interest for 1% (interest at 6% divided by 6) is multiplied by the given rate to ascertain the desired amount of interest.

Exercise 84, Interest

(ORAL OR WRITTEN)

1. "Sixty days after date I promise to pay to the order of City Bank, \$1,000.00 with interest at 6%." This quotation is from a note issued by A. L.

Jan. 30	$\frac{30}{24}$	$\frac{33}{17}$	$\frac{68}{12}$
Mar. 31	$\frac{31}{55}$	$\frac{31}{48}$	
Apr. 30		$\frac{48}{48}$	

FEB 10

1010.00

Moffit December 12. (a) What is the maturity date? (b) What is the maturity value? (c) What entry will be made on the books of A. L. Moffit when the note is paid at maturity?

2. (a) What is the nature of the transaction recorded in the journal entry at the right? What effect does this transaction have on (b) the assets? (c) the liabilities? (d) the proprietorship?

December 14, 19			
D. D. Kreimer.....	251	55	
Interest Expense.....	2	56	
Notes Payable.....			254 11

3. (a) What is the nature of the transaction of July 5 shown recorded in the three accounts at the left? (b) How

W. O. TODD				City			
19				19			
Apr.	6	60 days S	97	326	80	July	5
						Note	J 7
							326 80

INTEREST INCOME							
				19			
				July	5	J 7	1 63

NOTES RECEIVABLE							
19							
July	5	6%, 30	J 7	328	43		

(c) What effect does this transaction have on the assets and proprietorship? (d) How many days was the account past due? (e) What is the maturity date of the note? (f) What is the maturity value of the note?

4. What is the amount of interest in each of the following problems:

- | | |
|-----------------------------|------------------------------|
| (a) \$ 400.00, 45 days, 8%? | (e) \$ 300.00, 30 days, 8%? |
| (b) \$ 500.00, 36 days, 6%? | (f) \$6,000.00, 15 days, 8%? |
| (c) \$ 240.00, 15 days, 6%? | (g) \$1,500.00, 30 days, 8%? |
| (d) \$ 500.00, 48 days, 6%? | (h) \$ 900.00, 90 days, 9%? |

Exercise 85, Interest Calculations

Ascertain the following:

1. Maturity value of a 90-day 6% interest-bearing note for \$326.50.
2. Maturity value of a 30-day 8% interest-bearing note for \$127.80.
3. Maturity value of a 60-day 9% interest-bearing note for \$19.65.
4. Maturity value of a 30-day 7% interest-bearing note for \$131.55.
5. Interest on \$142.55 for 45 days at 5%.
6. Interest on \$32.55 from October 12 to December 21 at 6%.
7. Interest on \$2,500.00 from March 3 to June 17 at 8%.
8. Interest on \$486.16 from August 17 to November 12 at 7%.
9. Maturity value of a 90-day 6% interest-bearing note for \$429.38.
10. Amount to be collected October 9 on a sale dated July 5, terms, 60 days, amount of sale \$791.82, interest at 6% for the time past due.

CHAPTER XIX

PURCHASES DISCOUNT AND SALES DISCOUNT

When merchandise is sold on credit, the buyer usually has thirty, sixty or ninety days in which to make payment. In order to encourage him to make payment before the time allowed, the seller may allow him a *cash discount* for payment within a definite period. The discussion in this chapter relates to the method of recording transactions in which cash discount is involved.

Cash Discount. The purpose of cash discount is to facilitate collection. The buyer will make a greater effort to pay the obligation promptly if by so doing he is allowed to cancel it with a less amount of cash than the obligation.

James Brown buys merchandise for \$1,000.00 on thirty days time. It is agreed at the time he makes the purchase that if he pays within ten days, he may deduct one per cent discount. It is quite evident that Mr. Brown will make a special effort to pay within the ten days because by so doing, he cancels a liability of \$1,000.00 with \$990.00 cash.

Terms on Invoices. The agreed discount is stated in the terms of the invoice. Terms "net 60 days" mean that the buyer will be expected to pay within sixty days from the date of the invoice. Terms "2, 10, n 60" indicate that the buyer will be expected to pay the full amount of the invoice within sixty days from the date of the invoice, but if he pays within ten days, he will be entitled to a discount of two per cent from the amount of the invoice.

Cash discount does not change the method of recording a purchase or a sale because neither party knows that the discount will be deducted. The discount becomes effective only when the invoice is paid or collected.

Cash discounts are of two kinds:

- (1) Those allowed to the business by creditors, usually referred to as *purchases discount*.
- (2) Those allowed by the business to charge customers, usually referred to as *sales discount*.

Purchases Discount. The cash discount deducted by the purchaser in accordance with the terms of the purchases invoice is referred to as *purchases discount*. The effect of purchases discount on the equation, "Assets = Liabilities + Proprietorship" is to decrease the assets the amount of cash paid, decrease the liabilities the amount of the obligation canceled and increase the

income (proprietorship) the difference between the amount of the liability and the cash paid, which is the amount of the discount.

The account in the illustration at the right appears on the ledger of O. L. Gore. The information recorded in this account shows that O. L. Gore owes L. K. Day \$950.00 for merchandise purchased October 23. The terms of the invoice state that O. L. Gore may deduct 3% if payment is made to L. K. Day within ten days from October 23.

		L. K. DAY		City	
		19			
		Oct.	23 3/10 a/30	P3	950 —

November 1. Issued check No. 55 for \$921.50 to L. K. Day in full for invoice of October 23, \$950.00, less 3% discount.

This transaction decreases the asset cash \$921.50, the liability accounts payable \$950.00, and increases the income \$28.50. The general journal entry at the left and the cash book entry below record this transaction.

November 1, 19

		950	—		921	50
✓	L. K. Day					
	Cash				28	50
	Purchases Discount					
	Paid invoice of 10/23 less discount.					

and the credit to the Purchases Discount account, the increase in income.
debit to L. K. Day records the decrease in the liability accounts payable; the credit to the Cash account, the decrease in the asset cash;

The amount of the invoice is entered in the first column, the discount in the second, and the check in the third. This records the decrease in the liability accounts payable, the increase in income, and the decrease in the asset cash, hence maintains the equality of debits and credits.

When posting, the account with L. K. Day is debited with the amount entered in the first column; the credit to the Purchases Discount account is from the second column and the credit to Cash from the third column. The method of posting the total purchases discount in the Purchases Discount column of the cash book is explained on page 230.

Exercise 86, Purchases Discount

(ORAL OR WRITTEN)

1. The proprietorship of D. W. Ray, August 1, in equation form is:

$$\begin{array}{l} \text{ASSETS } \$6,000.00 = \text{LIABILITIES } \$2,100.00 + \text{D. W. RAY,} \\ \text{PROPRIETORSHIP } \$3,900.00 \end{array}$$

August 1. D. W. Ray issued check to a creditor for \$490.00 in full of account, \$500.00, less 2% discount. (a) Show the effect of this transaction on the above equation. (b) State the journal entry to record the transaction. (c) State the entry to record the cash paid in the cash book.

2. "Terms, 3/10, 2/30, n 60", appear on an invoice for \$2,500.00 received by D. D. Mayo, May 16. What amount will be required to pay this invoice (a) before May 26? (b) before June 15? (c) at the maturity of the invoice? (d) Show the amounts that would be in each of the three columns of the cash book on the payments side if the invoice is paid before June 15.

3. October 12. D. C. Bane received an invoice for merchandise purchased, \$850.00; date of the invoice, October 7; terms, 3/10-n 60. (a) State the entry to record this transaction in the purchases journal. (b) State the entry to record the transaction in a cash book with three columns when the invoice is paid October 17.

4. The proprietorship of L. Spence, October 1, in equation form is:

$$\text{ASSETS } \$4,400.00 - \text{LIABILITIES } \$1,650.00 = \text{L. SPENCE, PROP. } \$2,750.00$$

October 1. Issued check to W. L. Nye, a creditor, for \$480.00 in full of account, \$500.00, less 4%. (a) State the effect of this transaction on the above equation. (b) State the entry in journal form to record the transaction. (c) State the entry to record the transaction in a three column cash book.

5. October 3. Issued check to W. L. Nye for \$5.00 because the discount deducted in the transaction of the 1st should have been 3% instead of 4%.

25.00
14.50

(a) State the effect of this transaction on the equation resulting from recording the preceding transaction. State the entry to record the transaction (b) in journal form; (c) in a cash book with three columns.

SALES DISCOUNT

Sales Discount. The cash discount allowed to a customer as indicated by the terms on the sales invoice is referred to as *sales discount*. It permits a charge customer to cancel his obligation with a less amount of cash than the obligation. The effect of sales discount on the equation, "Assets = Proprietorship", is to increase the assets the amount of cash received, decrease the assets the amount of the account receivable canceled, and increase the expense the difference between the amount of the account receivable canceled and the cash received, which is the amount of the discount.

The account in the illustration at the right appears on the ledger of W. B. Gordon. This account shows that Charles Lay, has the privilege of deducting 3% if check is received from him on or before February 1.

CHARLES LAY

February 1. Received check from Charles Lay for \$242.50 in full for sale of January 22, \$250.00, less 3% discount.

This transaction increases the asset cash \$242.50, decreases the asset accounts receivable \$250.00, and increases the expense \$7.50. The general

February 1, 19		
✓ Cash	242 50	
Sales Discount	7 50	
Charles Lay.....		250 —
Received cash in full of account less discount.		

journal entry at the left and the cash book entry below record the transaction. The debit to the Cash account records the increase in the asset cash; the credit

to the account with Charles Lay, the decrease in the asset accounts receivable; and the debit to Sales Discount, the increase in expense.

		CASH	Receipts
19 Feb.	1 ✓ Charles Lay	In full of account less discount	242 50

The check marks in the folio columns are to avoid double posting. When the journal entry is posted as stated the account with Charles Lay will be in balance and the Sales Discount account will have a debit balance of \$7.50; the debit to the Cash account will be through posting the total cash receipts at the end of the month.

The entry for the transaction of February 1 may be recorded in the cash book only with the addition of a column for the sales discount as in the illustration below.

CASH				Receipts		
Date	L. F.	Name of Account	Explanation	|| Amount || Cr.	Sales Disct. Dr.	Net Cash Dr.
19 Feb.	1	Charles Lay	Sale Jan. 22, less 3%	250 —	7 50	242 50

The amount with which the customer is credited is entered in the first column, the discount in the second, and the cash in the third. This records the decrease in the asset accounts receivable, the increase in expense, and the increase in the asset cash, hence maintains the equality of debits and credits. The posting is explained on page 230.

Exercise 87, Sales Discount
(ORAL OR WRITTEN)

1. The proprietorship of A. A. Joy, November 1, in equation form is:
CASH \$550 + ACCTS. REC. \$825 + MDSE. INV. \$1,450 = A. A. JOY, PROP. \$2,825
November 1. Received check from Charles Riley, a charge customer, for \$392.00 in full of account, \$400.00, less 2% discount. (a) State in equation form the effect of this transaction on the above equation. (b) State the journal entry to record the transaction. (c) State the entry to record the cash received in the cash book.
2. "Terms: June 14 10, 3 30, 2 60, n 90" appear on a sales invoice for \$300.00 rendered to a charge customer by C. H. Lucas, May 15. What amount will be received if collection is made in full before (a) June 10? (b) June 30? (c) July 30? (d) August 30? (e) Show the amount that would be in each of the three columns of the cash book on the receipts side if collection is made June 30.
3. March 16. O. C. Howe rendered an invoice to J. W. Allen, a charge customer for \$927.50, terms 2 10, n 30. (a) State the entry to record this transaction in the sales journal. (b) State the entry to record the transaction in the cash book if cash is received March 18.
4. The proprietorship of B. Sams, June 1, in equation form is:
CASH \$950 + ACCTS. REC. \$800 + MDSE. INV. \$2,600 = B. SAMS, PROP. \$4,350
June 1. Received check from W. A. Young, a charge customer, for \$291.00 in full of account, \$300.00, less 3%. (a) State the effect of this transaction on the above equation. (b) State the entry in journal form to record the transaction. (c) State the entry to record the transaction in a three column cash book.
5. June 6. Received a check from W. A. Young for \$3.00 because he had deducted 3% instead of 2% when he made remittance on June 1. (a) State

the effect of this transaction on the equation in Question 4 (a). State the entry to record the transaction (b) in journal form; (c) in a cash book with three columns.

COLUMNAR CASH BOOK

Columnar Cash Book. If a transaction is to be recorded and posted quickly, the use of more than one journal should be avoided. When sales and purchases discounts are involved, the use of the general journal and cash book requires entries in both books but the use of additional columns on the cash receipts and payments sides of the cash book makes it possible for each transaction to be recorded in the cash book only. Additional time is saved in that each purchases and sales discount need not be posted separately but the total of each column may be posted at one time the same as the total of the cash receipts or cash payments. A cash book with special columns for recording and posting in the manner explained is referred to as a *columnar cash book*.

Arrangement of Columnar Cash Book. The columns in the cash book should be arranged to facilitate posting. Those columns which contain amounts to be posted daily should be placed nearest the account title. Thus, in the three-column cash book, Illustration 49, amounts entered in the discount and cash columns are not to be posted until the end of the month hence these columns are placed at the right.

Illustrations of Columnar Cash Book. The illustration at the top of pages 228 and 229 shows a columnar cash book with three columns on each side. The three columns on each side make it unnecessary to use the general journal to record the purchases or sales discount involved in cash transactions. The transactions recorded in this columnar cash book are given below the illustration. The method of recording these transactions may be briefly described as follows:

Receipts Side. Each amount to be posted to the credit of an account is entered in the Amount column on a line with the name of the account. The amount of the discount, if any, is entered in the Sales Discount column. The net amount of cash received in each transaction is entered in the Net Cash column. The total of the Amount column less the total of the Sales Discount column should always equal the total of the Net Cash column.

Payments Side. Each amount to be posted to the debit of an account is entered in the Amount column on a line with the name of the account. The amount of the discount, if any, is entered in the Purchases Discount column. The net amount of cash paid in each transaction is entered in the Net Cash column. The total of the Amount column less the total of the Purchases Discount column should always equal the total of the Net Cash column.

CASH RECEIPTS

<i>September</i>						SALES DISCT. DR.	NET CASH DR.
DATE	L. F.	ACCOUNT CREDITED	EXPLANATION	AMOUNT CR.			
1		Robert A. Baum, Cap. Investment		5000			5000
8		D. C. Dale	For sale of 8/28	160		320	15680
9		Sales	Cash sales	23165			23165
15		W. C. Bird	On account	200		40	19600
16		Sales	Cash sales	16250			16250
20		Sammet Bros.	In full for sale 9/5	18750		375	18375
23		Abbott Bros.	In full of account	2550			2550
29		E. A. Bradford	In full for sale 9/20	17980		360	17620
30		Sales	Cash sales	42150			42150
30		Total credits		656845			
30		Sales Disc. Dr.	Total discount			1455	
30		Cash Dr.	Total receipts				655390
Oct. 1		Balance					391063

Illustration 49, Receipts Side of the Three-column Cash Book

Cash Proof. At the time of proving cash, all the columns on each side are totaled, and the pencil footings entered in each column under the line on which the last amount is entered. The position of these pencil footings is shown by the small figures in Illustration 49, when cash was proved September 15.

The total of the first column should equal the sum of the totals of the second and third columns on each side. The difference between the totals of the Net Cash Dr. and Net Cash Cr. columns is the cash balance.

Narrative of Transactions. The following transactions shown recorded in the illustrations at the top of this and the opposite page were completed by Robert A. Baum, a retail merchant, during the month of September.

1. Robert A. Baum invested cash, \$5,000.00.
3. Paid \$62.25 for paper and other storeroom supplies.
6. Gave Adams & Adams check for \$199.43 in full of account, \$203.50, less 2%. Purchased August 10, recorded September 1.
8. Received a check from D. C. Dale for \$156.80 in full of account, \$160.00, less 2%. Sold August 28, recorded September 2.
9. Cash sales to date \$231.65.
10. Gave the C. & A. Railway Company check for \$15.87 in payment of freight on merchandise purchased.
13. Gave J. L. Harmon & Son a check for \$955.93 in full for purchase of September 2, \$985.50, less 3%.

CASH PAYMENTS

September

DATE	L. F.	ACCOUNT DEBITED	EXPLANATION	AMOUNT DR.	PUR. DISCT. CR.	NET CASH CR.
3	✓	Store Supplies	Paper, etc.	6225		6225
6	✓	Adams & Adams	For invoice 8/10	20350	407	19943
10	✓	Purchases	Freight	1587		1587
13	✓	J. L. Harmon & Son	In full of account	98550	2957	95593
16	✓	Salaries	Clerk's salary	8250		8250
24	✓	Joseph Larson & Co.	For purchase 9/14	72675	1454	71221
26	✓	Rule Bros.	In full of account	12650		12650
30	✓	W. O. Shaw & Co.	For purchase 9/1	36725	367	36358
30		Rent	September rent	125		125
30	✓	Total debits		269512		
30		Purchases Disc. Cr.	Total discount		5185	
30		Cash Cr.	Total payments			264327
						655390

Illustration 49, Payments Side of the Three-column Cash Book

15. Received a check from W. C. Bird for \$196.00 to apply on sale of September 5, \$392.50, terms 2/10, n/30.

The amount of credit is ascertained by dividing the cash received by 98c; the discount is the difference between the quotient and the cash received.

15. A count of the cash on hand and in the bank shows a total of \$4,350.97 and this was proved with the cash book record.
16. Cash sales, \$162.50.
16. Paid clerk's salary, \$82.50.
20. Received check from Sammet Bros. for \$183.75 in full for sale of September 3, \$187.50 less 2%.
23. Received check for \$25.50 from Abbott Bros. in full for sale of September 1.
24. Gave Joseph Larson & Co. check for \$712.21 in payment of purchase of September 14, \$726.75 less 2%.
26. Paid Rule Bros. \$126.50 in full for purchase of September 1.
29. Received check from E. A. Bradford for \$176.20 in full for sale of September 20, \$179.80 less 2%.
30. Gave W. O. Shaw & Co. check for \$363.58 in payment for purchase of September 1, \$367.25 less 1% discount.
30. Gave the Solomon Realty Co. check for \$125.00, September rent.
30. Cash sales to date, \$421.50.
30. All cash has been deposited; bank balance, \$3,910.63.

Posting from the Columnar Cash Book. The following comments apply to the cash book illustrated on pages 228 and 229:

Receipts Side. Each amount entered in the Amount column is posted to the credit of the account written on the same line with it; these credits are posted daily. The amounts entered in the Sales Discount and Net Cash columns are not posted daily. At the end of the month or when a Trial Balance is to be taken, the total of the Sales Discount column is posted to the debit of the Sales Discount account; the total of the Net Cash column is posted to the debit of the Cash account. Cash and the equality of the debits and credits are proved before the totals are posted.

Payments Side. Each amount entered in the Amount column is posted to the debit of the account written on the same line with it; these debits are posted daily. The amounts entered in the Purchases Discount and Net Cash columns are not posted daily. At the end of the month or when a Trial Balance is to be taken, the total of the Purchases Discount column is posted to the credit of the Purchases Discount account; the total of the Net Cash column is posted to the credit of the Cash account. Cash and the equality of the debits and credits are proved before the totals are posted.

SUMMARY

The Purchases Discount account is a record of the increases in income because of the deduction of cash discount when paying creditors.

This account is *credited* for the increases in the income, cash discount.

The *credit* balance of the Purchases Discount account is an income and is closed into the Profit and Loss Summary account.

The Sales Discount account is a record of the increases in expense because of the deduction of cash discount by customers.

This account is *debited* for the increases in the expense, cash discount.

The *debit* balance of the Sales Discount account is an expense and is closed into the Profit and Loss Summary account.

Columnar Cash Book. The purpose of the columnar cash book is to facilitate recording transactions and posting. Any number of columns may be provided on either or both sides of the cash book. When extra columns are provided for cash discount only, three are needed on each side. The daily posting is from the first money column at the left on each side and the monthly posting, the totals of the two columns at the right on each side.

Exercise 88, Cash Discount

(ORAL OR WRITTEN)

1. "May 20. Received check for \$106.70 from Albert Yoe in full for sale of May 10, \$110.00, less 3% discount." What accounts are (a) debited? (b) credited? How would the transaction be recorded (c) in the general journal? (d) in a three-column cash book?

2. Received check for \$1.00 from A. I. Frye to correct error in sales discount deducted. What account is (a) debited? (b) credited? (c) How will this transaction be recorded in a three-column cash book?

3. What entry or entries will be required to record the facts shown on the check stub illustrated at the left (a) if all transactions are recorded in one journal? (b) if cash transactions are recorded in a cash book without special columns? (c) if cash transactions are recorded in a columnar cash book?

No. 321

Date June 16

To N. X. Myers

For Inv. 6/7

\$216.50

Less 3%

6.50

Amount

\$210.00

4. The bookkeeper for C. H. Bates, a retail merchant, uses a cash book in which the receipts side is ruled similar to Illustration 49. The totals for the month of May of the three amount columns are in the illustration at the right. (a) What is the title of each of these columns? (b) How are the totals posted?

5617	15	129	50	5487	65
------	----	-----	----	------	----

5. The bookkeeper for L. M. Day, a retail merchant, uses a cash book in which the payments side has columns similar to those in Illustration 49. The totals of the three amount columns for the month of October are in the illustration at the right. (a) What is the title of each of these columns? (b) How are the totals posted?

6654	41	221	50	6432	91
------	----	-----	----	------	----

Exercise 89, Posting the Columnar Cash Book

It is desired to record in the ledger all the facts shown on pages 228 and 229. This includes the cash transactions recorded in the illustration and the purchases and sales which are the basis for the cash receipts and payments as outlined in the transactions under the illustration.

Instructions. (1) Record in the sales journal under the appropriate date the sales for which cash is collected as recorded in the cash book.

(2) Record in the purchases journal under the appropriate date the purchases for which cash is paid as recorded in the cash book.

(3) Post from the purchases journal, sales journal, and cash book, allowing five lines for each account, and take a Trial Balance.

Exercise 90, Purchases Discount

George Black began business February 1 with a cash investment of \$2,000.00. During February he completed the following transactions in which merchandise was purchased on credit and invoices were paid less discount.

1. Purchased merchandise from Rowland Bros., City, terms 2/10 n/60, invoice of January 28, \$416.80.
2. Purchased merchandise from J. Kasson, Hampton, terms 1/10 n/30, invoice of January 30, \$381.90.

5. Purchased merchandise from L. B. Meyers, City, terms 3 10 n 30, invoice of February 1, \$527.90.
6. Purchased merchandise from Walter Akers, Pittsburg, terms 1 10 n 30, + invoice of February 4, \$327.90.
7. Gave Rowland Bros. check for \$408.46 in payment for invoice of January 28 less discount.
8. Purchased merchandise from William Evans, City, terms 1 10 n 30, invoice of February 6, \$127.90.
9. Gave J. Kasson check for \$378.08, January 30 invoice less discount.
10. Purchased merchandise from C. H. Norbert, Uniontown, terms 2 10 n 30, invoice of February 8, \$550.41.
11. Gave L. B. Meyers check for \$512.06, February 1 invoice less discount.
14. Gave Walter Akers check for \$324.62, February 4 invoice less discount.

Instructions. (1) Record these transactions in the purchases journal and three-column cash book.

(2) Post, allowing five lines for each account, and take a Trial Balance.

Exercise 91, Sales Discount

The investment of R. W. Nye, February 1, is shown by the following equation:

Cash \$1,350 + Mdse. Inventory \$1,650 = R. W. Nye, Prop. \$3,000.

During the month he completed the following sales and cash collections:

2. Sold merchandise to R. L. Martin, City, terms 1 10 n 30, sales ticket No. 314, \$88.95.
4. Sold merchandise to M. S. Landis, City, terms 2 10 n 60, sales ticket No. 315, \$123.15.
5. Sold merchandise to H. I. White, City, terms 3 10 n 60, sales ticket No. 316, \$178.98.
7. Sold merchandise to D. C. Miller, City, terms 2 10 n 30, sales ticket No. 317, \$256.76.
12. Received check for \$88.06 from R. L. Martin, sale No. 314 less discount.
13. Sold merchandise to A. M. Allan, City, terms 3 10 n 30, sales ticket No. 318, \$351.45.
14. Received check for \$120.69 from M. S. Landis, sale No. 315 less discount.
15. Received check for \$173.61 from H. I. White, sale No. 316 less discount.
16. Sold merchandise to J. L. Macon, City, terms 1 10 n 30, sales ticket No. 319, \$87.50.
18. Received check for \$251.62 from D. C. Miller, sale No. 317 less discount.

Instructions. (1) Record the investment in the general journal and cash book, and the transactions in the sales journal and columnar cash book.

(2) Prove the equality of the debits and credits recorded in the cash book and post from the general journal, sales journal and cash book.

(3) Take a Trial Balance.

CHAPTER XX

WORK AT THE CLOSE OF A FISCAL PERIOD

As explained in the two preceding chapters, transactions which involve interest and cash discount increase or decrease the proprietorship. The discussion in this chapter relates to (a) the method of showing the effect of interest and cash discount on the Balance Sheet and Profit and Loss Statement, and (b) a review of preceding discussions.

A Fiscal Period is an accounting period of one or more months and not exceeding twelve as explained in previous discussions. At the beginning of a fiscal period the owner knows the value of his assets, the amount of his liabilities and his proprietorship. This information is obtained from a count of the assets and from the bookkeeping records.

During the fiscal period, the transactions are recorded to show their effect on assets, liabilities, and proprietorship or to provide information from which the effect can be determined when inventories are secured. At the close of a fiscal period, it is necessary to count the assets in order to ascertain the cost of the merchandise sold, the supplies used, the insurance expired, and the estimated depreciation on equipment. When the cost of sales and expenses referred to in the preceding sentence have been recorded, the balance of each account on the ledger will show either an asset, liability, proprietorship, expense or income.

The Work Required at the Close of a Fiscal Period may be briefly described as follows:

- (1) Taking inventories.
- (2) Preparing the Working Sheet.
- (3) Preparing the Balance Sheet and Profit and Loss Statement.
- (4) Recording inventories, expired insurance, and depreciation.
- (5) Recording the closing entries.
- (6) Preparing the Post-closing Trial Balance.

Illustrations. The work required at the close of the fiscal period is further explained by illustrations. These illustrations and the discussion in in connection with them provide a review of preceding chapters.

September 1. The assets, liabilities, and proprietorship of R. A. French, a distributing merchant for radio receiving sets and loud speakers, expressed in equation form are:

ASSETS \$8429.67 – **LIABILITIES** \$1614.25 = **PROPRIETORSHIP** \$6815.42

During September a number of transactions were completed and recorded in the books of original entry and ledger. The Trial Balance taken September 30 is given in the first two columns of the Working Sheet illustrated below.

The value of the merchandise in stock on September 30 is \$5,627.90; store and office supplies, \$109.65; prepaid insurance, \$100.00; depreciation on equipment, 1% per month.

Working Sheet. The purpose of the Working Sheet in the illustration below is to ascertain the present proprietorship and net profit. The method of preparing this Working Sheet is briefly described as follows:

(1) The Trial Balance is copied in the first two columns at the left of a sheet ruled with eight columns as in the illustration below.

R.A. French
Working Sheet, September 30, 19

NAME OF ACCOUNT	TRIAL BALANCE		ADJUSTMENTS		BALANCE SHEET		PROFIT AND LOSS STATEMENT	
	DR.	CR.	DR.	CR.	ASSETS	LIAB. & PROP.	COSTS & EXP.	INCOME
Cash	124785				124785			
Notes Receivable	700—				700—			
Radio Shop	26550				26550			
D.D. Julian	25960				25960			
Merchandise Inventory	530265		562790	530265	562790			
Store & Office Supplies	15715			2750	10965			
Prepaid Insurance	110—			10—	100—			
Equipment	500—				485—			
Depreciation Reserve		10—		5—				
Notes Payable		500—				500—		
Radio Manufacturing Co.		25150				25150		
Russell & Russell		80517				80517		
R.A. French, Capital		661542				661542		
R.A. French, Drawing	200—							
Sales		512445						512445
Purchases	440225		530265	562790			4077—	
Rent Expense	11250						11250	
Salary Expense	27925						27925	
Store & Office Supplies Used			2750				2750	
Expired Insurance			10—				10—	
Depreciation Expense			5—				5—	
Interest Income		467						467
Purchases Discount		7965						7965
Interest Expense	662						662	
Sales Discount	6749						6749	
Net Profit								
	1359086	1359086	1097305	1097305	879550	879550	520877	520877
							62341	62341
							879550	879550
							520877	520877

Illustration 50, Working Sheet

(2) Adjustments to make each account balance show an asset, liability, proprietorship, cost, or income are made as follows:

(a) The September 1 merchandise inventory, \$5,302.65, is added to Purchases and subtracted from the Merchandise Inventory account by entries in the Adjustments columns debiting Purchases and crediting Merchandise Inventory.

(b) The September 30 merchandise inventory, \$5,627.90, is deducted from Purchases and added to the Merchandise Inventory account by a credit to Purchases and a debit to the Merchandise Inventory account in the Adjustments columns.

(c) The cost of supplies used, insurance expired and the estimated depreciation are recorded in the credit and debit Adjustments columns to indicate subtraction from the Supplies and Prepaid Insurance accounts, addition to the Depreciation Reserve account and addition to the appropriate expense accounts.

(3) The Adjustments columns are proved to be in balance and the account balances extended as follows:

(a) The balance of each of the first four accounts is an asset, hence, is extended into the Assets column.

(b) The September 30 merchandise inventory, which is now the balance in the Merchandise Inventory account, is extended into the Assets column.

(c) The asset value of the supplies on hand (\$137.15—\$27.50) is extended into the Assets column. The asset value of the prepaid insurance (\$110.00—\$10.00) is extended into the Assets column.

(d) The estimated depreciation, \$5.00, recorded in the credit Adjustments column is added to the credit balance of the Depreciation Reserve account and the sum, \$15.00, subtracted from the cost of the equipment, \$500.00, and the book value, \$485.00, which is an asset, entered in the Assets column.

(e) The next three account balances are liabilities; hence, each is extended into the Liabilities column.

(f) The net investment (\$6,815.42—\$200.00) is extended into the same column as the liabilities because this column contains both liabilities and proprietorship.

(g) Each of the remaining account balances shows either an income or expense and is extended into the Income or Expense column.

(4) The Balance Sheet and Profit and Loss Statement columns are totaled. The total assets, \$8,795.50, minus the total liabilities and capital, \$8,172.09, equals the net profit, \$623.41. The total income, \$5,208.77, minus the total cost and expense, \$4,585.36, equals the net profit, \$623.41. The fact that the net profit is the same in each case indicates the correctness of the extensions. The net profit is entered in the Liabilities and Capital column and in the Costs and Expense column to balance the columns.

Balance Sheet. The Balance Sheet below was prepared from the Working Sheet on page 234. The total assets, liabilities and proprietorship stated in equation form are:

ASSETS \$8795.50 – LIABILITIES \$1556.67 = PROPRIETORSHIP \$7238.83

R. A. French
Balance Sheet, September 30, 19

<i>Assets:</i>		
<i>Cash</i>		<i>1247 85</i>
<i>Notes Receivable</i>		<i>7 00</i>
<i>Accounts Receivable</i>		
• <i>Radio Shop</i>	<i>26550</i>	
<i> D. D. Julian</i>	<i>25960</i>	<i>52510</i>
<i>Merchandise Inventory</i>		<i>5627 90</i>
<i>Store and Office Supplies</i>		<i>109 65</i>
<i>Prepaid Insurance</i>		<i>1 00</i>
<i>Equipment</i>	<i>50000</i>	
<i>Less Depreciation Reserve</i>	<i>1500</i>	<i>485</i>
<i>Total Assets</i>		<i>8795 50</i>
<i>Liabilities</i>		
<i>Notes Payable</i>		<i>500</i>
<i>Accounts Payable</i>		
<i> Radio Manufacturing Co.</i>	<i>25150</i>	
<i> Russell & Russell</i>	<i>80517</i>	<i>105667</i>
<i>Total Liabilities</i>		<i>1556 67</i>
<i>R. A. French Present Capital</i>		<i>7238 83</i>

Illustration 51, Balance Sheet, Report Form

Analysis of Proprietorship. From the information given in the Trial Balance and Balance Sheet columns of the Working Sheet an analysis of proprietorship was prepared as in the illustration at the right. This shows the net proprietorship at the beginning, the profit, drawings, and present proprietorship. This report may be made a part of the Balance Sheet or prepared separate from it.

<i>Analysis of Proprietorship:</i>		
<i>R. A. French, Investment</i>		<i>\$6,815.42</i>
<i>R. A. French, Drawing:</i>		
<i> Net Profit</i>	<i>\$623.41</i>	
<i> Withdrawals</i>	<i>200.00</i>	<i>423.41</i>
<i>Present Capital</i>		<i>\$7,238.83</i>

Profit and Loss Statement. The information in the Profit and Loss Statement on page 237 was obtained from the Working Sheet on page 234. From this statement, R. A. French may ascertain the following information: (a) sales, (b) cost of sales, (c) profit on sales, (d) expenses, (e) net profit from

selling merchandise, (f) profit earned through interest income and purchases discount, (g) expenses because of interest paid and sales discount, and (h) net increase in proprietorship, that is, net profit.

At Trough
Profit and Loss Statement for Month of September, 19

1	Income from Sales:			
2	Net Sales			512445
3	Cost of Merchandise Sold:			
4	Inventory August 31	530265		
	Purchases	440725		
	Cost of Mds. Available for Sale	970490		
	Mds. Inventory September 30	562790		
8	Cost of Merchandise Sold			4077
	Gross Profit on Sales			104745
	Operating Expenses			
	Rent Expense	11250		
2	Salary Expense	27925		
13	Store and Office Supplies Used	2750		
14	Expired Insurance	10		
15	Depreciation Expense	5		
	Total Operating Expenses			43425
17	Net Profit from Operations			61320
	Other Income:			
18	Interest Income	467		
20	Purchases Discount	7965		
	Total Other Income			8432
	Gross Income			69752
23	Deductions from Income:			
	Interest Expense	662		
25	Sales Discount	6749		
	Total Deductions from Income			7411
	Net Profit			62341

Illustration 52, Profit and Loss Statement

Adjusting Entries. The entries in Illustration 53, page 238, record the adjustments shown in the Adjustments columns on the Working Sheet, Illustration 50.

The first entry transfers the merchandise inventory, September 1, to the Purchases account as indicated by \$5,302.65 entered in the credit and debit Adjustments columns on the lines with Merchandise Inventory and Pur-

chases. The second entry transfers the amount of the September 30 inventory of merchandise from the Purchases account to the Merchandise Inventory account as indicated by the amounts entered in the debit and credit Adjustments columns on the lines with Merchandise Inventory and Purchases.

The purpose of the third, fourth, and fifth entries is to record the expense because of supplies used, expired insurance, and estimated depreciation as indicated by the amounts entered in the credit and debit Adjustment columns of the Working Sheet on a line with Store and Office Supplies, Prepaid Insurance and Depreciation Reserve, and Store and Office Supplies Used, Expired Insurance and Depreciation Expense. The reason for these adjustments is explained in connection with the Working Sheet and in Chapter XIII.

September 30, 19

Purchases	53 02 65	
Merchandise Inventory		53 02 65
<i>To transfer the inventory</i>		
<i>August 31 to the Purchases account</i>		
30		
Merchandise Inventory	56 27 90	
Purchases		56 27 90
<i>To record the inventory September 30</i>		
30		
Store and Office Supplies Used	27 50	
Store and Office Supplies		27 50
<i>Supplies used during September</i>		
30		
Expired Insurance	10 -	
Prepaid Insurance		10 -
<i>Insurance expired during September</i>		
30		
Depreciation Expense	5 -	
Depreciation Reserve		5 -
<i>1/12 monthly depreciation of</i>		
<i>fixed assets</i>		

Illustration 53, Adjusting Entries

Closing Entries. The entries in Illustration 54 are to record the net profit shown on the Profit and Loss Statement, Illustration 52, in the Capital account. These entries also close the income, expense and Drawing accounts. The figures in each entry are those in the Profit and Loss columns of the Working Sheet; the account titles are those at the left and on the same line with the figures. Amounts entered in the Cost or Expense column are recorded as credits

187.65

and the amounts entered in the Income column as debits because the purpose of these entries is to close the accounts.

September 30 19

Sales	512445	
Profit and Loss Summary		512445
To close the Sales account		
30		
Profit and Loss Summary	4077	
Purchases		4077
To close the Purchases account		
30		
Profit and Loss Summary	43425	
Rent Expense		11250
Salary Expense		27925
Store and Office Supplies Used		2750
Expired Insurance		10
Depreciation Expense		5
To close the operating expense accounts		
30		
Interest Income	467	
Purchases Discount	7965	
Profit and Loss Summary		8432
To close the Interest Income and Purchases Discount accounts		
30		
Profit and Loss Summary	7411	
Interest Expense		662
Sales Discount		6749
To close the Interest Expense and Sales Discount accounts		
30		
Profit and Loss Summary	62341	
R. A. French, Drawing		200
R. A. French, Capital		42341
To close the Profit and Loss Summary account		

55

Illustration 54, Closing Entries

When the closing entries are posted, all accounts in balance are ruled in the same manner as in the Model Set, Chapter XIV.

Post-closing Trial Balance. The illustration at the right shows the account balances on the ledger of R. A. French after the adjusting entries on page 238 and the closing entries on page 239 have been posted and the accounts in balance ruled. The accounts on this Trial Balance are the same as those on the Balance Sheet, page 236.

R. A. FRENCH
POST-CLOSING TRIAL BALANCE, September 30, 19...

Cash.....	1247 85		
Notes Receivable.....	700		
Radio Shop.....	265 50		
D. D. Julian.....	259 60		
Merchandise Inventory.....	5627 90		
Store and Office Supplies.....	109 65		
Prepaid Insurance.....	100		
Equipment.....	500		
Depreciation Reserve.....		15	
Notes Payable.....		500	
Radio Manufacturing Co.....		251 50	
Russell & Russell.....		805 17	
R. A. French, Capital.....		7238 83	
	8810 50	8810 50	

SUMMARY

Each transaction completed during the fiscal period affects either (a) the assets, (b) the liabilities, (c) the assets and liabilities, (d) the assets and proprietorship, (e) the assets and income or expenses, or (g) the liabilities and income or expenses. Each transaction is recorded so as to show its effect on assets, liabilities and proprietorship as follows:

DEBITS

- (1) Increases in assets.
- (2) Decreases in liabilities.
- (3) Decreases in proprietorship
- (4) Increases in expense.
- (5) Decreases in income.

CREDITS

- (1) Decreases in assets.
- (2) Increases in liabilities.
- (3) Increases in proprietorship.
- (4) Decreases in expense.
- (5) Increases in income.

CLASSIFICATION OF ACCOUNTS

The accounts on the ledger of R. A. French stated on the Trial Balance, page 235, classified as assets, liabilities, proprietorship, income, cost and expense are as follows:

ASSETS	LIABILITIES	PROPRIETORSHIP	INCOME	COST
Cash	Notes Payable	R. A. F., Capital	Sales	Purchases
Notes Receivable	Radio Mfg. Co.	R. A. F., Drawing	Int. Income	EXPENSE
Radio Shop	Russell & Russell		Pur. Disc.	Rent Exp.
D. D. Julian				Salary Exp.
Mdse. Inventory				Supplies Used
Store and Office Supplies				Exp. Insurance
Prepaid Insurance				Dep. Expense
Equipment				Int. Expense
- Depreciation Res.				Sales Disc.
				Collection Exp.

Reserve accounts may be classified as *minus* asset or *valuation* accounts. Purchases account may be classified as an expense or a cost; see page 171.

PRACTICE SET No. 3

The purpose of this practice set is to provide a review of the preceding chapters. The transactions to be recorded are those completed by R. A. French, the radio dealer referred to in this chapter, during the month of October. These may be recorded in the bound blanks provided in connection with Practice Set 2 or on loose sheets of paper ruled similar to the illustrations of books of original entry and ledgers in the text.

The work required is as follows:

(1) Opening a new ledger from the information given in the Balance Sheet, Illustration 51, which shows the financial condition of the business September 30.

(2) Recording the transactions outlined in the narrative.

Opening a new ledger as explained in Chapter XII, requires recording in the general journal and ledger the assets, liabilities and proprietorship shown on the Balance Sheet. The cash balance is posted from the journal entry but recorded in the cash book so that the cash book record will agree with the Cash account.

Before recording the opening entry in the general journal, write the titles of the accounts in the ledger as instructed on the inside back cover of the ledger used in Practice Set No. 3. If ruled sheets of ledger paper are to be used, write the account titles in the ledger and in the order stated in the list below; allow nine lines for the Notes Receivable account and seven lines for each of the other accounts, including the title.

Cash
Notes Receivable
Radio Shop
D. D. Julian
Dow Drug Company
M. D. Saylor
C. C. Winters
R. O. Davenport
Merchandise Inventory
Store and Office Supplies
Prepaid Insurance
Equipment
Depreciation Reserve
Notes Payable
Radio Manufacturing Co.
Russell & Russell
R. A. French, Capital
R. A. French, Drawing

Sales
Purchases
Rent Expense
Salary Expense
Miscellaneous Expense
Depreciation Expense
Store and Office Supplies Used
Expired Insurance
Interest Income
Purchases Discount
Interest Expense
Sales Discount
Profit and Loss Summary

Opening Entry

Record in the general journal and cash book the assets, liabilities and capital shown on the Balance Sheet, Illustration 51. This entry will require eight debits and five credits. Debit Equipment with the cost value of the equipment and credit Depreciation Reserve with the depreciation.

Post the opening entry; write "Balance" in the explanation column of each account.

When the instructor has approved the opening entry and the ledger, proceed with recording the October transactions below.

NARRATIVE OF OCTOBER TRANSACTIONS

October 1

No. 1. Gave the Seton Realty Company check for \$112.50 in payment of October rent.

No. 2. Gave the Radio Mfg. Co. check for \$243.95 in payment for the October 1 balance less 3% discount. This balance was recorded in the old ledger as purchase of September 21, terms 3/10—n/30.

No. 3. Sold the Radio Shop, 137 Grant St., City, terms 1/10—n/30, sale No. 501, \$326.50.

October 2

No. 4. Received from D. D. Julian check for \$59.60 and a 20-day 6% interest-bearing note for \$200.00 in full for October 1 balance.

Record the check in the cash book and the note in the general journal.

October 3

No. 5. Paid cash \$7.50 for October telephone bill.

Use the Miscellaneous Expense account for expenses of this kind.

No. 6. Borrowed \$500.00 from the City National Bank. Issued a 60-day non-interest-bearing note as evidence of the loan. Received credit for the proceeds of the note less 8% discount.

Record in the general journal and cash book as illustrated on page 213; do not forget to place a check mark in the folio column opposite the appropriate account in each entry.

October 5

No. 7. Received from the Radio Shop a check for \$15.50 and a 6% interest-bearing note dated today and maturing October 30 in full for October 1 balance.

No. 8. Bought from Radio Manufacturing Company, Buffalo, terms 3 10—n/30, invoice dated October 3, \$1,061.40.

No. 9. Sold Dow Drug Company, 16th and May Streets, City, terms 2/10—n/30, sale No. 502, \$721.32.

October 6

No. 10. Sent Russell & Russell a check for \$797.12 in payment for October 1 balance less 1% discount. This balance was recorded in the old ledger as a purchase of September 26, terms 1/10—n/30.

Prove cash, balance \$655.21, and post from all books of original entry; do not post the totals. Write the address of the customers and creditors in the ledger as you post. The address of each customer and creditor is a part of the account title, hence should appear in the ledger.

927.86

899.97 —

27.83

October 8

No. 11. Sold C. C. Winters, 45 Main St., Ashland, terms 3/10—n/30, sale No. 503, \$1,298.75.

No. 12. Bought from Russell & Russell, St. Louis, terms 1/10—n/30, invoice dated October 6, \$356.50.

October 10

No. 13. Bought from Radio Manufacturing Company, terms 3/10—n/30, invoice dated October 8, \$927.80.

October 11

No. 14. Sold M. D. Saylor, 125 Boone Street, Atlanta, terms 1/10—n/30, sale No. 504, \$35.00.

No. 15. Received from the Radio Shop a check for \$323.23 for invoice of October 1 less discount.

October 12

No. 16. Sold the Radio Shop, terms 2/10—n/30, sale No. 505, \$279.95.

October 13

No. 17. Bought from Russell & Russell, terms 1/10—n/30, invoice dated October 12, \$332.90.

No. 18. Received from A. L. Powers, check for \$300.00 for 30-day note dated September 13.

No. 19. Sold Dow Drug Company, terms 2/10—n/30, sale No. 506, \$509.27.

No. 20. Sent the Radio Manufacturing Company check for \$1,029.56 in payment for invoice of October 3 less discount.

Prove cash, balance \$248.88, and post from all books of original entry except the totals.

October 15

No. 21. Received from the Dow Drug Company check for \$706.89 for invoice of October 5 less discount.

No. 22. Sold R. O. Davenport, 700 Third Ave., City, terms 1/10—n/30, sale No. 507, \$179.35.

October 16

No. 23. Paid cash for salaries to date, \$142.50.

No. 24. Gave Russell & Russell check for \$352.93 in payment for invoice of October 6 less discount.

October 18

No. 25. Sold C. C. Winters, terms 1/10—n/30, sale No. 508, \$366.75.

No. 26. Received from C. C. Winters check for \$1,259.79 for invoice of October 8 less discount.

No. 27. Sent the Radio Manufacturing Company check for \$899.97 in payment for invoice of October 8 less discount.

October 19

No. 28. Bought from Radio Manufacturing Company, terms November 1, 3/10—n/30, invoice dated October 17, \$721.25.

"November 1, 3/10—n/30" means that R. A. French has the privilege of deducting 3% discount if he pays the invoice before November 11. This is sometimes referred to as advance dating.

No. 29. Received check for cash sale of 1 receiving set, \$78.50.

No. 30. Paid City Water Works cash, \$2.50, for water.

October 20

No. 31. Received from M. D. Saylor check for \$34.65 for invoice of October 11 less discount.

No. 32. The Radio Shop returned one No. 7 loud speaker and asked credit for the sale price, \$12.50, to apply on the sale of the 12th.

No. 33. Sold M. D. Saylor, terms 1 10—n 30, sale No. 509, \$169.54.

Prove cash, balance \$930.81, and post from all books of original entry except the totals.

October 22

No. 34. Received from D. D. Julian check for \$200.67 for note and interest due today.

No. 35. Bought from Russell & Russell, terms 1 10—n 30, invoice dated October 20, \$176.50.

No. 36. Received from the Radio Shop check for \$262.10 for invoice of October 12 less return and less discount.

No. 37. Gave C. W. Arnold check for \$48.75 in payment for store and office supplies.

No. 38. Gave Russell & Russell check for \$313.48 in payment for invoice of October 12 less discount per terms and less credit for \$16.25, cost price of damaged loud speaker included with purchase and returned per agreement.

Record the return in the general journal and the cash in the cash book. The discount is deducted from the amount of the purchases invoice less the return.

October 23

No. 39. Returned to the Radio Manufacturing Company one No. 20 loud speaker, included in purchase of the 19th, and requested credit for \$36.95, the purchase price. Paid \$1.25 express charges and debited this to the Radio Manufacturing Company.

October 25

No. 40. Sold R. O. Davenport, terms 1 10—n 30, sale No. 510, \$426.50.

No. 41. Received from R. O. Davenport check for \$177.56 for invoice of October 15 less discount.

October 26

No. 42. Gave the Lawton Transfer Company check for \$18.75 freight on purchase of October 22 from Russell & Russell. This firm is to deliver the merchandise to our freight station, hence this check is debited to their account.

October 27

No. 43. Sold Dow Drug Company, terms, 2/10—n/30, sale No. 511, \$769.42.

No. 44. Bought from the Radio Manufacturing Company, per invoice dated October 25, \$507.50; terms November 15, 3/10—n/30.

No. 45. Sold C. C. Winters, terms, 1/10—n/30, sale No. 512, \$88.75.

Prove cash, balance \$1,188.91, and post from all books of original entry except the totals.

October 29

No. 46. Received from Dow Drug Company check for \$109.27 and a 30-day non-interest-bearing note for \$400.00 for sale of October 13.

No. 47. Bought from Russell & Russell, terms, 1/10—n/30, invoice dated October 27, \$228.50.

No. 48. Paid cash, \$6.35, for gas and electricity.

October 30

No. 49. Gave the First National Bank check for \$502.50 in payment of our note dated September 30 with interest at 6%.

No. 50. Received check from the Radio Shop for \$151.04 and a 30-day 6% interest-bearing note for \$100.00 for note dated October 5 and interest.

Record the face of the new note in the journal and the check in the cash book.

No. 51. Received from M. D. Saylor check for \$167.84 for sale of October 20 less discount.

No. 52. Withdrew cash for personal use, \$150.00.

No. 53. Received from R. O. Davenport a check for \$202.00 and a 6% interest-bearing note due in 30 days for \$200.00 in settlement for note for \$400.00 due today and interest.

October 31

No. 54. Borrowed \$1,000.00 from the City National Bank on note due in 30 days with interest at 6% and received credit for the face of the note

No. 55. Gave the Transfer Company check for \$107.85, freight bills to date.

No. 56. Paid salaries for remainder of October, \$139.75.

Instructions. (1) Prove cash, balance \$1,912.61, and post from the books of original entry including the totals.

(2) Prepare a Trial Balance on an eight-column working sheet from the account balances in the ledger.

(3) From the account balances on the Trial Balance and the inventories and depreciation below complete the Working Sheet.

Merchandise Inventory, \$5,915.38.
 Store and Office Supplies Used, \$29.80.
 Expired Insurance, \$10.00.
 Depreciation, 1% per month.

- (4) Prepare the Balance Sheet and the Profit and Loss Statement.
 (5) Record in the general journal the adjusting and closing entries.
 (6) Post the entries and rule all the accounts that balance.
 (7) Prepare a Post-closing Trial Balance.

Exercise 92, Work at the Close of the Fiscal Period

From the information given in the Trial Balance and the notations below prepare (a) Working Sheet, (b) Balance Sheet as of November 30 and Profit and Loss Statement for the fiscal year ending November 30, (c) adjusting entries, and (d) closing entries.

C. L. BING TRIAL BALANCE, November 30, 19...

Cash.....	5,816 44	
Notes Receivable.....	760 —	
Accounts Receivable.....	5,530 19	
Merchandise Inventory.....	4,114 55	
Store and Office Supplies.....	327 90	
Prepaid Insurance.....	250 —	
Office Equipment.....	1,250 —	
Depreciation Reserve.....		125 —
Notes Payable.....		1,500 —
Accounts Payable.....		4,414 32
C. L. Bing, Capital.....		11,527 50
C. L. Bing, Drawing.....	2,400 —	
Sales.....		62,717 57
Purchases.....	45,016 45	
Rent Expense.....	2,500 —	
Salary Expense.....	11,155 25	
Miscellaneous Expense.....	616 75	
Depreciation Expense.....		
Store and Office Supplies Used.....		
Expired Insurance.....		
Purchases Discount.....		587 40
Interest Income.....		32 65
Sales Discount.....	998 62	
Interest Expense.....	168 29	
	80,904 44	80,904 44

Notation:

Merchandise Inventory, \$4,931.27.
 Depreciation, 5%.
 Store and Office Supplies Inventory, \$187.65.
 Prepaid Insurance, \$80.50.

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An account is a collection of Debits & credits pertaining to one phase of the business brought together under one title.

~~+1 = Increase in assets~~
~~-1 = Decrease in assets~~
~~+2 = Increase in prop.~~
~~-2 = Decrease in prop.~~

assets include any property needed to carry on a business.

Liabilities are The obligation of a business.

- Liabilities incurred
1. additional investment
 2. buying on credit
 3. borrowing

1/1/23

1. Did I page the journal?
2. Did I page the trial balance?
3. Are my balances in the ledger?
4. Is the ledger paged?
5. Are personal ^{41. 100} accounts ruled each time they balance? Yes.

W. T. Page

ABCD Bold
31
30

30 Days has SEPT, Apr, JUNE, and
ALL THE REST HAVE 31
EXCEPT FEB WHICH IN LEAP YR. HAS 29
AND 28 IN ITS PRIME "

Close & Rule all Journals
end of month End Dec.

{ Cash Book
Sales Journal
Purch. Journal

@ 5

